

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2016. This MD&A should be read in conjunction with our 2016 annual consolidated financial statements and related notes and is dated March 31, 2017. Unless the context indicates otherwise, references in this report 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 consolidated financial statements are in U.S. dollars, and are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

Additional information about the company, including our 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 incorporated in Ontario, Canada and qualify as an eligible Canadian issuer under the Multijurisdictional Disclosure System and as 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, we comply with U.S. continuous reporting requirements by filing our Canadian disclosure documents with the SEC; our annual report is filed under Form 40-F and we furnish our quarterly interim reports under Form 6-K.

Organization of the MD&A

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We provide additional information on our basis of presentation of financial information contained in the MD&A and key financial and operating measures on pages 40 to 42 of our December 31, 2016 Annual Report.

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

This Annual Report contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. We may provide such information and 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 169.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. We utilize these measures in managing the business, including performance measurement, capital allocation and valuation purposes, 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 this MD&A.

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 approximately \$250 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 interest and other forms of performance income for doing so. As at December 31, 2016, our listed partnerships, private funds and public securities portfolios represented \$110 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 managed portfolios of listed securities through a series of segregated accounts and mutual funds.

We align our interests with clients by investing alongside them and have over \$30 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 operating 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 asset management business, which is responsible for managing our various pools of capital, development of new products for our clients and fundraising for our various fund products.

Our balance sheet capital is invested primarily in our four flagship listed partnerships, Brookfield Property Partners L.P. (“BPY” or “Brookfield Property Partners”); Brookfield Renewable Partners L.P. (“BEP” or “Brookfield Renewable Partners”); Brookfield Infrastructure Partners L.P. (“BIP” or “Brookfield Infrastructure Partners”); and Brookfield Business Partners L.P. (“BBU” or “Brookfield Business 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. During the second quarter of 2016, we completed the formation of Brookfield Business Partners by way of a special dividend to shareholders, which is the primary vehicle through which we own and operate the majority of the industrial and services businesses of our private equity business group. 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.

STRATEGY AND VALUE CREATION

Our business is centered 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 70,000 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 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 are more challenging to execute. We believe these situations provide more attractive valuations recognizing also that 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.

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, improves our ability to withstand financial downturns and enables our management teams to focus on operations and other growth initiatives.

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 interest. 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 are able to source large scale capital from multiple sources. We invest significant amounts of our own capital alongside our clients. 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 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

(As at March 8th, 2017)

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

In 2016, the year began with weak inflation across most of the developed world due to falling commodity prices and modest economic growth. This supported further interest rate cuts (Europe and Australia), reduced expectations for rate hikes (U.S.), and even new policies targeting interest rate levels (Japan). Meanwhile, many countries in Latin America were dealing with above-target inflation and high interest rates due to a combination of weakening currencies and weather-related events (Colombia, Brazil, and Peru). As the year progressed, inflation began returning to target, aided by a rebound in commodity prices and firmer growth (developed countries) and stabilizing currencies (Latin America). Overall, real GDP growth was slightly lower in 2016 than 2015, with the U.S. slowing to 1.6% year over year and Eurozone slowing to 1.7%. Latin America also saw a modest slowdown, with many countries growing by 1.5 to 2.5%, except for Peru (3.9%) which outperformed and Brazil (-3.6%) which remained in a recession. The outlook for growth in 2017 is brighter, as many countries ended the year stronger than they started. However, it also looks riskier from a geopolitical perspective, with major elections in Europe (France and Germany), the start of Brexit negotiations, and uncertainty related to U.S. trade and foreign policy. We expect developed markets to continue averaging close to 2% growth, and the developing countries to recover to a faster pace than what was seen in 2016.

United States

The U.S. economy grew by 1.6% in 2016, slightly below the 2.2% average from 2009-2015. Consumer spending remained the primary growth driver, but unlike recent years, investment growth was weak. Nonetheless, the second half of the year was much stronger than the first half, and there is solid momentum heading into 2017. The labour market remains very strong, with the unemployment rate down to 4.8%, initial jobless claims below 250 thousand (40-year low), and the number of discouraged workers nearly back to pre-crisis levels. This is very close to what the Federal Reserve considers to be full employment, and it is supporting strong wage growth and helping push inflation back to the Fed's 2% target. Inflationary pressures could build in 2017, particularly if the new administration increases spending, cuts taxes, or raises import tariffs. In this context, we expect to see multiple rate hikes this year as the Fed's targets are met. Interest rate divergence with other developed nations should continue to support a strong USD. Meanwhile, momentum in the housing sector stalled in 2016 after several years of strong growth, and annual housing starts of approximately 1.2 million remains below our estimate of the sustainable range (1.4 to 1.6 million). We continue to see upside to housing starts in 2017. Overall, real GDP should continue to grow by 2-3%, barring any major policy disruption.

United Kingdom

Real GDP in the U.K. grew 2.0% in the fourth quarter and by 1.8% overall in 2016. Growth continues to defy forecasts for a sharp downturn in the wake of Brexit, but inflation has risen quickly from 0.4% in June to 1.9% in January, as the GBP depreciation (-10% on a trade-weighted basis) is being passed on to consumers. Inflation will likely exceed the Bank of England's 2% target early in 2017 and could impact consumption, the primary driver of growth, if real purchasing power erodes. Year-over-year job growth averaged 1.7% through the first nine months of 2016, but slowed to just 1% in the fourth quarter. Despite the uncertainty related to Brexit, industrial production and manufacturing grew faster in the second half of the year, aided by the weaker pound. The outlook for 2017 is mixed, but consumer spending will likely be the key. If consumption holds up despite higher inflation, growth should remain solid and the Bank of England may need to consider a rate hike. Alternatively, if consumption weakens, growth could slow abruptly, as some originally expected. Longer term, if Brexit leads the U.K. to become a more closed nation, in terms of both immigration and trade, it will have lower growth potential.

Eurozone

Eurozone real GDP grew steadily at 1.7% in the fourth quarter, and 1.7% overall in 2016. Germany and Spain both outperformed the region in 2016, growing by 1.8% and 3.0%, respectively. Italy and France were laggards, growing at 1.0% and 1.2%. Countries that were initially hit the hardest during the Euro crisis are now outperforming, as job growth in Spain and Ireland was more than double the Eurozone average in 2016 (2.7% vs. 1.3%). Despite some progress in 2016, structural issues remain in the region, with budget deficits in the 2 to 5% range and debt-to-GDP ratios in the 100 to 140% range. Italy, Portugal, Spain and France are not making progress towards reducing government debt levels. This leaves some countries, particularly Italy and Portugal, with debt ratios over 130% of GDP, susceptible to rising interest rates. While the ECB is keeping downward pressure on regional interest rates, global rate movements can still push Eurozone rates higher, as seen in the fourth quarter. 2017 will be a major year for European politics, with elections in France and Germany, and potentially in Italy after a failed referendum in December led the Prime Minister to resign. Rising popularity of anti-EU parties continues to be a key risk.

Brazil

Brazil's economic contraction continues to slow, with real GDP declining 2.5% year over year in the fourth quarter and 3.6% overall in 2016. Brazil looks to be on track to resume growth in 2017 after a deep two-year recession. Net exports continue to rise, while the contractions in consumption and investment have slowed. Inflation declined sharply from 10.7% last January to 5.4% this January. In response, the central bank has cut interest rates by 200 bps since October, and further cuts will provide relief to public finances, consumers, and businesses. The government's primary deficit stood at 2.5% of GDP in November, while the budget deficit (which includes interest payments) remains wide at 9.3% of GDP. As the central bank lowers interest rates, financing costs and the budget deficit will be substantially reduced. A virtuous cycle of lower inflation and lower interest rates will also help stimulate investment. The unemployment rate rose to 12% in December, with job cuts particularly acute in manufacturing and construction. However, this significant slack in employment could lead the economy to outperform in the coming years once growth returns. The Lava Jato corruption investigations continue, and upcoming plea bargain testimonies are a key short-term uncertainty for the markets and popular sentiment. However, this challenging period has placed pressure on the administration to accelerate economic reforms, which are now underway. This leaves Brazil, with its large and growing middle class, well placed to grow sustainably in the medium and long term.

Canada

Growth in Canada rebounded to 1.4% in 2016 after growing by 0.6% in 2015. The pain in the energy sector has begun to ease with global oil prices rising back to the \$50-55/barrel level and investment may positively contribute to growth again in 2017 after declining for two years. There continues to be disparities in performance between provinces, with Alberta and Saskatchewan shedding a combined 500k jobs in 2016, while the diversified economies of Ontario, Quebec, and British Columbia added 2.2 million. Overall, substantial slack remains in the economy, and Canada should continue to grow at a slower pace than the U.S. The Bank of Canada will likely maintain an accommodative monetary policy to keep the CAD weak and support the economy until it is operating closer to full capacity. A key risk remains high consumer debt levels and high housing prices in Toronto and Vancouver – a correction in housing prices would lead to weaker growth.

Australia

Australia grew by 2.5% in 2016, but slowed in the second half, growing by 1.9% in Q3 and 2.4% in Q4. Growth is being driven by a combination of higher export volumes (LNG, coal, and iron ore), steady consumer spending and higher government spending on major infrastructure projects. Offsetting some of the growth was a steep decline (-35%) in mining investment. Higher commodity prices and export volumes led to Australia's first trade surplus in three years in the fourth quarter. Employment started the year strong, growing 2.1% year over year in the first half of 2016, but slipped in the second half of the year to 1.1%, with all of the growth coming from part-time jobs. A similar story was seen in retail sales volumes, which grew by 2.7% year over year in the first half of 2016 before slipping to 1.7% in the second half. The housing sector remained a key driver of consumption and investment in 2016 as prices continued to rise, but a surge in housing starts – paired with high household debt levels – creates a risk of a correction in the next couple of years. Given these risks, and fairly benign inflation, the central bank will look to keep interest rates low.

China

China reported real GDP growth of 6.7% in 2016, aided by a surge in government-directed credit (total social financing) of 16%. The credit boost lifted the real estate market, with prices in Tier 1 cities rising 28% in 2016. It also supported a recovery in key industrial indicators, including investment (+8%), housing starts (+8%), and industrial power consumption (+2%). However, corporate debt levels have risen to 175% of GDP, the highest of any major economy, which poses a risk. The transition from investment-driven economy to consumption-driven is still in its early stages, and the economy may experience some volatility along the way. Despite the risks ahead, China's growing middle class continues to spend more, with retail sales growth remaining above 10%. China is also seeking to compete in higher value-added sectors, and its R&D spending (2.1% of GDP) is nearly on par with the OECD average (2.4% of GDP). China faces a declining working-age population in the coming years, so growth should slow down, but continued productivity gains will support sustained economic development.

India

India's official real GDP grew by 7.5% in 2016 and remains one of the fastest growing developing countries in the world. Inflation continued to decline – reaching a five-year low of 3.2% in January – supported by lower food prices following last year's strong harvest. In response, the central bank has started to cut interest rates. India introduced a sales tax reforms bill in Q3, which should improve inter-state trade flows and tax collection. The November decision to withdraw the largest denominated bills from circulation (86% of the total) faced logistical challenges in its rollout, particularly in India's largely cash-based informal economy. While this could dampen activity in the near term, it should accelerate financial sector formalization and support continued growth in the country.

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 judgments and estimates.

Election of Fair Value Accounting

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

We classify the vast majority of the 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 equity. Depreciation is determined on the revalued carrying values at the beginning of each year and recorded in net income.

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 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 these entities in our consolidated statements of operations, even though a substantial portion of the net income in these consolidated entities 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 statements of operations; however, these items impact the attribution of net income between shareholders and non-controlling interests. For example, asset management fees paid by our listed partnerships to the Corporation are eliminated from consolidated revenues and expenses. However, as the common shareholders are attributed all of the fee revenue while only attributed their proportionate share of the listed partnerships’ expenses, the amount of net income attributable to common shareholders is increased with a corresponding decrease in net 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 our Consolidated Statements of Operations and “two-lines” within Consolidated Statements of Comprehensive Income as equity accounted income that may 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 DEC. 31
(MILLIONS, EXCEPT PER SHARE AMOUNTS)

Condensed Statements of Operations	2016	2015	2014	Change	
				2016 vs 2015	2015 vs 2014
Revenues	\$ 24,411	\$ 19,913	\$ 18,364	\$ 4,498	\$ 1,549
Direct costs	(17,718)	(14,433)	(13,118)	(3,285)	(1,315)
Gross margin ¹	6,693	5,480	5,246	1,213	234
Other income and gains	482	145	190	337	(45)
Equity accounted income	1,293	1,695	1,594	(402)	101
Expenses					
Interest	(3,233)	(2,820)	(2,579)	(413)	(241)
Corporate costs	(92)	(106)	(123)	14	17
Fair value changes	(130)	2,166	3,674	(2,296)	(1,508)
Depreciation and amortization	(2,020)	(1,695)	(1,470)	(325)	(225)
Income taxes	345	(196)	(1,323)	541	1,127
Net income	3,338	4,669	5,209	(1,331)	(540)
Non-controlling interests	(1,687)	(2,328)	(2,099)	641	(229)
Net income attributable to shareholders	\$ 1,651	\$ 2,341	\$ 3,110	\$ (690)	\$ (769)
Net income per share	\$ 1.55	\$ 2.26	\$ 3.11	\$ (0.71)	\$ (0.85)

1. Gross margin is defined on page 20

Condensed Statements of Other Comprehensive Income (Loss)

Revaluation of property, plant and equipment	\$ 824	\$ 2,144	\$ 2,998	\$ (1,320)	\$ (854)
Foreign currency translation	1,236	(3,461)	(1,717)	4,697	(1,744)
Financial contracts and other	496	(475)	(483)	971	8
Equity accounted investments	430	515	223	(85)	292
Taxes on above items	(173)	(448)	(610)	275	162
Other comprehensive income (loss)	2,813	(1,725)	411	4,538	(2,136)
Non-controlling interests	(1,992)	945	(110)	(2,937)	1,055
Other comprehensive income (loss) attributable to shareholders	821	(780)	301	1,601	(1,081)
Comprehensive income attributable to shareholders	\$ 2,472	\$ 1,561	\$ 3,411	\$ 911	\$ (1,850)

Selected Balance Sheet Information

AS AT DEC. 31 (MILLIONS)	2016	2015	2014	Change	
				2016 vs 2015	2015 vs 2014
Consolidated assets	\$ 159,826	\$ 139,514	\$ 129,480	\$ 20,312	\$ 10,034
Borrowings and other non-current financial liabilities	72,650	65,420	60,663	7,230	4,757
Equity	69,688	57,227	53,247	12,461	3,980

Dividends declared for each class of issued securities for the three most recent years are presented on page 39.

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 seven 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

2016 vs. 2015

Consolidated net income for the year ended December 31, 2016 was \$3.3 billion compared to \$4.7 billion in 2015. Gross margin increased by \$1.2 billion, attributable to new businesses and developments that were acquired or completed during the year and operational improvements across our businesses, including the commencement of new leases and improved pricing in our panel board business. The acquisitions and developments also led to increases in interest expense and depreciation of \$413 million and \$325 million, respectively.

Fair value changes were a loss of \$130 million in 2016, whereas we recorded fair value increases of \$2.2 billion in 2015. Fair value changes relating to our investment properties were a gain of \$1.0 billion due to value increases, primarily in our opportunistic property portfolios. Appraised values in our core office portfolios were consistent with the prior year end as the strengths in some markets offset weaknesses in others. Furthermore, the impact of rising interest rates on our discount rates was offset by de-risking of certain properties through leasing activity and the general compression of spreads between interest and capitalization rates for commercial properties. We recorded appraisal gains in our opportunistic properties due to improvements in projected cash flows and reviews of comparable transaction metrics for certain opportunistic asset classes. Investment properties appraisal gains were offset by the impact of impairments on certain financial assets that are valued based on stock market prices and certain non-core manufacturing businesses that have been classified as held for sale.

Income taxes represented a net recovery as a result of a reduction in the effective tax rate on certain property assets following a change in ownership structure. Equity accounted income declined by \$402 million, primarily due to a decrease in the amount of fair value gains recorded in these entities. We also recorded a higher level of other income and gains, largely due to gains on the disposition of hospitality properties during the year.

Net income attributable to common shareholders totalled \$1.7 billion, or \$1.55 per share, compared to \$2.3 billion, or \$2.26 per share in 2015. The decline of \$641 million in the amount of net income attributable to non-controlling interests reflects the overall decline in net income, as well as a reattribution of income related to carried interest earned.

2015 vs. 2014

Consolidated net income for the year ended December 31, 2015 was \$4.7 billion, compared to \$5.2 billion in 2014. Gross margin increased by \$234 million as the contribution from 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, as well as the absence of contributions from assets sold since the 2014 period and the impact of foreign currency. 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.

Fair value changes declined from 2014 to 2015. Appraisal gains on investment properties held within consolidated subsidiaries totalled \$2.2 billion, which were \$991 million less than 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 2015 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 from 2014 to \$2.3 billion in 2015 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.

Foreign Currency Translation

The most significant currency exchange rates that impact net income are shown in the following table:

FOR THE YEARS ENDED DEC. 31	Average Annual Rate			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Australian dollar.....	0.7441	0.7523	0.9023	(1)%	(17)%
Brazilian real.....	3.4904	3.2776	2.3469	(6)%	(40)%
British pound.....	1.3554	1.5285	1.6478	(11)%	(7)%
Canadian dollar.....	0.7555	0.7832	0.9057	(4)%	(14)%

The average annual foreign exchange rates relative to the U.S. dollar for the more significant currencies that impact our business were lower for the year ended December 31, 2016, than that of 2015 and 2014. As a result of these rate variations, the U.S. dollar equivalents of the contributions from our subsidiaries and investments in these regions, particularly in the U.K., were lower in 2016 than in 2015 and 2014, all else being equal. From time to time, we mitigate the impacts of movements in foreign exchange rates through the use of financial contracts, where it is economically feasible to do so.

Statements of Operations

Revenues and Gross Margin

The following table presents consolidated revenues and gross margin, which we have disaggregated into our operating segments in order to facilitate a review of year-over-year variances. Gross margin is calculated as revenues less direct costs as presented in our Consolidated Statements of Operations. Acquisitions, dispositions, changes in the basis of presentation, such as between consolidation or equity accounting following changes in control, can impact revenues and direct costs concurrently, as can foreign currency fluctuations; accordingly, analysis of revenues less direct costs (i.e. gross margin) on a segmented basis can facilitate analysis by presenting the net impact of these items.

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 and wind conditions. Revenues within our private equity business generally vary in line with changes in the level of economic activity, with the exception of our construction operations that can fluctuate significantly with the award of large contracts.

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenue		Gross Margin		Change	
	2016	2015	2016	2015	Revenue	Gross Margin
Asset management.....	\$ 1,320	\$ 921	\$ 877	\$ 544	\$ 399	\$ 333
Property.....	6,338	5,444	3,306	2,779	894	527
Renewable power.....	2,474	1,632	1,429	1,072	842	357
Infrastructure.....	2,414	2,126	1,230	1,236	288	(6)
Private equity.....	9,962	8,580	772	642	1,382	130
Residential development.....	3,019	2,329	196	253	690	(57)
Corporate activities.....	235	78	181	54	157	127
Eliminations and adjustments ¹	(1,351)	(1,197)	(1,298)	(1,100)	(154)	(198)
Total consolidated.....	\$ 24,411	\$ 19,913	\$ 6,693	\$ 5,480	\$ 4,498	\$ 1,213

1. Adjustment to eliminate asset management fee revenue and carried interest, interest income earned from entities that we consolidate and revenues earned on construction projects between consolidated entities. See Note 3 to our consolidated financial statements

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Revenue		Gross Margin		Change	
	2015	2014	2015	2014	Revenue	Gross Margin
Asset management.....	\$ 921	\$ 771	\$ 544	\$ 399	\$ 150	\$ 145
Property.....	5,444	5,010	2,779	2,382	434	397
Renewable power.....	1,632	1,679	1,072	1,149	(47)	(77)
Infrastructure.....	2,126	2,193	1,236	1,202	(67)	34
Private equity	8,580	6,158	642	442	2,422	200
Residential development.....	2,329	2,912	253	2,519	(583)	(2,266)
Corporate activities.....	78	199	54	108	(121)	(54)
Eliminations and adjustments ¹	(1,197)	(558)	(1,100)	(2,955)	(639)	1,855
Total consolidated.....	<u>\$ 19,913</u>	<u>\$ 18,364</u>	<u>\$ 5,480</u>	<u>\$ 5,246</u>	<u>\$ 1,549</u>	<u>\$ 234</u>

1. Adjustment to eliminate asset management fee revenue and carried interest, interest income earned from entities that we consolidate and revenues earned on construction projects between consolidated entities. See Note 3 to our consolidated financial statements

Asset Management

2016 vs. 2015

Revenues in our asset management operations increased by \$399 million or 43% in 2016 due to a \$257 million increase in base management fees and incentive distributions and a \$129 million increase in carried interest on the monetization of investments in our private equity and property private funds. Base management fees from funds increased by \$186 million to \$495 million, as these fees benefitted from a 44% increase in fee bearing capital driven by new fund commitments. Listed partnership fees increased \$58 million due to a 15% increase in capitalization from higher market pricing and new issuances of debt and equity, in addition to the launch of BBU which had a capitalization of \$2.3 billion at the time of the initial spin-off. Incentive distributions increased by \$32 million, reflecting our participation in our listed partnerships' unitholder distribution increases in 2016. Gross margin increased by \$333 million to \$877 million due to the aforementioned increases in revenues, which were partially offset by higher direct costs driven by the expansion of our operations.

2015 vs. 2014

Revenues in our asset management operations increased by \$150 million or 19% in 2015 primarily due to a \$155 million increase in base management fees. Base management fees from private funds increased by \$93 million or 38%, 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 2015. In addition, we realized \$49 million (2014 – \$8 million) of carried interest on the monetization of properties. Gross margin increased from \$399 million to \$544 million as the increases in fees were partially offset by \$36 million of additional costs associated with the expansion of our operations as well as incentive compensation paid on the realization of carried interest.

Property

2016 vs. 2015

Revenue increased by \$894 million or 16% mainly as a result of incremental capital allocated to higher yielding opportunistic investments and same-property growth in our core office business. Acquisitions contributed an additional \$612 million of revenues in the year, primarily through our opportunistic funds. These included the acquisition of an office portfolio in Brazil, a self-storage portfolio, a student housing portfolio and the privatization of a U.S. regional mall business. Same-property growth in our core office portfolio contributed \$39 million in revenue driven by the commencement of new leases, particularly at the Brookfield Place New York redevelopment project. Merchant development sales increased revenues and gross margins by \$296 million and \$117 million, respectively. These increases were offset by the disposition or partial disposition of mature assets within our core office and retail portfolios. Gross margin increased by \$527 million or 19% to \$3.3 billion due to the redeployment of capital in higher margin asset classes, including self-storage and student housing, a full year of contribution from our U.K. resort business, and higher rental income following the renovation program within our multifamily portfolio.

2015 vs. 2014

Acquisitions within our property operations increased revenues and gross margins by \$803 million and \$552 million, respectively, in comparison to 2014. Acquisitions in 2015 include a large U.K. resort operator and multifamily properties in the U.S. Margins in our property operations increased significantly in 2015 due to the acquisition of a large triple net lease portfolio in the second half of 2014, which incurs minimal direct costs. The contribution from these investments and same-property 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 \$104 million of gross margins following the disposal of assets throughout the year. Significant dispositions in 2015 included office properties in Melbourne, Australia, Washington, D.C. and Boston.

Renewable Power

2016 vs. 2015

Revenues and gross margin increased by \$842 million and \$357 million compared to the prior year, respectively, primarily due to acquisitions in Colombia, Brazil and Pennsylvania, which contributed \$882 million of additional revenues. The impact of stronger hydroelectric generation in Canada and Brazil, coupled with improved wind generation in Brazil were offset by lower pricing in our North American and Brazilian hydroelectric portfolios, as well as the impact of foreign exchange on our non-U.S. denominated operations. Gross margin increased by \$357 million as the increase in revenues from acquisitions were partially offset by the associated increase in direct costs of \$470 million.

2015 vs. 2014

Generation from facilities acquired and completed developments coming online increased revenues by \$202 million in 2015, compared to 2014. 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 electricity pricing decreased relative to the prior year, which reduced revenue by \$42 million in aggregate. Gross margin decreased by \$77 million, reflecting the decline in revenue as well as an increase of \$30 million in direct costs over the prior year, primarily due to costs associated with newly acquired facilities.

Infrastructure

2016 vs. 2015

Revenues in our infrastructure operations increased by \$288 million in 2016 compared to 2015. The increase in revenue is primarily due to acquisitions and internal growth initiatives completed over the past 12 months which contributed \$380 million of additional revenues, net of dispositions. Acquisitions in 2016 include a ports business in Australia, North American gas storage, and toll roads in India and Peru. Completion of expansion projects also contributed to revenue growth, in particular from projects completed within our U.K. regulated distribution business and district energy operations. This increase was partially offset by the impact of lower currency exchange rates on revenues at non-U.S. subsidiaries. Gross margin decreased by \$6 million, reflecting direct costs of \$325 million from businesses acquired in 2016 and \$50 million in costs associated with higher volumes were partially offset by the aforementioned increases in revenues.

2015 vs. 2014

Revenues in our infrastructure operations declined by \$67 million in 2015 compared to 2014. Improved volumes across our businesses, along with higher rates and tariff increased revenues by \$180 million from 2014. These increases were more than offset by the impact of lower currency exchange rates on revenues at non-U.S. subsidiaries. Gross margin increased by \$34 million compared to 2014 as increased costs of \$53 million from businesses acquired in 2015 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

2016 vs. 2015

Revenues increased by \$1.4 billion as a reflection of earnings from entities which were acquired throughout 2015 that now have contributed revenues for the full year, namely in our other industrial operations segment which included an infrastructure support business acquired in June 2015 a graphite electrode manufacturing operations acquired in August 2015, and our palladium business

acquired in August 2015. Revenues in our construction services operations increased 14% from \$3.8 billion in 2015 to \$4.4 billion in the current year as a result of an increased level of activity in Australia and the U.K. Furthermore, our directly held panel board business benefitted from higher pricing and volume in the North American oriented strand board (“OSB”) market throughout the year, increasing revenue by \$368 million. This increase in revenue combined with the aforementioned increase in activity at our construction services operations contributed to higher gross margins, partially offset by lower margins on an Australian contract; this resulted in an overall increase of \$200 million in gross margin compared to last year.

2015 vs. 2014

The increases in revenues are substantially attributable to the businesses acquired throughout the year, including a U.S. industrial manufacturing operation, an infrastructure products manufacturing operation and a Canadian palladium mine. Revenues at our directly held panel board operations decreased by \$103 million or 7% in 2015, primarily due to lower prices partially offset by a 4% increase in shipment volumes. Revenues from our construction services operation increased by \$1.0 billion as a number of large projects commenced during the year. A large percentage of revenues and costs are earned and incurred in non-U.S. dollars, therefore the decline in the value of local currencies reduced the translated value of gross margins by \$19 million. Other business services revenues increased by \$873 million 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 decreased by \$193 million.

Residential

2016 vs. 2015

Revenues for the year increased by \$690 million while gross margins decreased by \$57 million. We delivered 43 projects in our Brazilian operation, compared to 25 in the prior year, which increased revenue by \$466 million. This increase in revenue was more than offset by higher selling costs and corporate overhead, which resulted in a reduction in gross margins. In our North American operations, we experienced 537 additional home closings and a 7% overall increase in the average home selling prices based on the product mix of homes sold, however, these were offset by lower land gross margins as a result of decreases in average selling prices based on the product mix of lots sold.

2015 vs. 2014

Revenues from our Brazilian operations decreased by \$691 million compared to 2014; we delivered fewer projects in 2015 due to a slowing economy in Brazil and delivery dates for a number of projects that were moved to future quarters due to construction and permitting delays. The decline in the Brazilian currency also reduced the translated value of revenues by \$364 million. 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 compared to 2014 with the increased proportion of lower-priced product sold.

Corporate Activities

2016 vs. 2015

Revenues increased as a result of higher level of investment gains within our financial asset portfolio compared to 2015.

2015 vs. 2014

Revenues declined due to reduced level of investment gains within our financial asset portfolio compared to 2014.

Other Income and Gains

Other income and gains in 2016 included gains on the disposition of a portfolio of hospitality assets and hospitality trademarks of \$108 million and \$131 million, respectively, as well as a \$67 million gain from a partial disposition of a toehold position in publicly traded securities.

Equity Accounted Income

Equity accounted income represents our share of the net income recorded by investments over which we exercise significant influence. The following table disaggregates consolidated equity accounted income to facilitate analysis:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Property operations					
General Growth Properties.....	\$ 476	\$ 526	\$ 1,006	\$ (50)	\$ (480)
Canary Wharf	10	461	—	(451)	461
Other property operations.....	445	600	387	(155)	213
Infrastructure operations	314	125	81	189	44
Private equity and other	48	(17)	120	65	(137)
	<u>\$ 1,293</u>	<u>\$ 1,695</u>	<u>\$ 1,594</u>	<u>\$ (402)</u>	<u>\$ 101</u>

Our share of GGP's equity accounted income was \$476 million this year, compared to \$526 million in 2015. GGP's income, excluding fair value changes and depreciation and amortization, in 2016 was \$430 million, which increased by \$34 million compared to 2015 due to a 5% improvement in operating results on a same-store basis, partially offset by the absence of income from asset dispositions. GGP recorded fair value gains of \$21 million in the year, as asset values remained relatively consistent year over year. Our share of GGP's equity accounted income in 2015 decreased by \$480 million compared to 2014, of which \$466 million was due to a reduction in the level of fair value gains recognized by GGP.

Our share of Canary Wharf's equity accounted income was \$10 million in 2016. Income earned from Canary Wharf's operating activities increased by \$55 million to \$154 million. This increase was partially offset by \$126 million of unrealized losses on interest rate swap contracts, as a result of changes in long-term interest rates. We commenced equity accounting for our interest in Canary Wharf in February 2015 when we increased our ownership from 22% to 50%. Our share of Canary Wharf's equity accounted income in 2015 included appraisal gains of \$332 million related to increases in the value of Canary Wharf's investment property portfolio since acquisition.

Equity accounted income from other property operations, which consist mainly of core office properties, decreased from \$600 million in 2015 to \$445 million in 2016 due to the absence of net income from a U.S. regional mall business which we had equity accounted for in the prior year but began consolidating following its privatization in July 2016.

Infrastructure equity accounted income for the year includes a \$103 million transaction gain recognized in the second quarter of 2016 on the privatization of our Brazilian toll road investment. The gain was determined based on the difference between the cost paid for our additional interest and our IFRS carrying value of this business.

Equity accounted income from private equity and other investments in 2016 increased by \$65 million as the prior year's results included valuation charges on oil and gas reserves by investee companies and inventory impairments on equity accounted Brazilian residential projects.

Interest Expense

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Corporate borrowings	\$ 241	\$ 225	\$ 228	\$ 16	\$ (3)
Non-recourse borrowings					
Property-specific mortgages.....	2,498	2,124	2,047	374	77
Subsidiary borrowings.....	307	330	272	(23)	58
Subsidiary equity obligations	187	141	32	46	109
	<u>\$ 3,233</u>	<u>\$ 2,820</u>	<u>\$ 2,579</u>	<u>\$ 413</u>	<u>\$ 241</u>

The majority of our borrowings are fixed rate long-term financing. 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 in this period, compared to the prior year, 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 during the year increased by \$374 million over the prior year and included \$366 million of interest on additional borrowings associated with acquisitions, particularly within our property, infrastructure and renewable power operations. We continue to refinance maturing obligations and, in certain instances, increased the notional level of borrowings, albeit at reduced rates.

Interest expense on subsidiary borrowings decreased by \$23 million largely due to repayments of credit facilities throughout the year. In addition, our Brazilian residential operations continued to reduce the level of borrowings throughout the year, decreasing interest expense.

Subsidiary equity obligations carrying charges increased by \$46 million as a result of the interest incurred during the year on the BPY preferred equity units issued in the second quarter.

Fair Value Changes

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Investment properties.....	\$ 960	\$ 2,275	\$ 3,266	\$ (1,315)	\$ (991)
General Growth Properties warrants	(110)	(30)	526	(80)	(556)
Investment in Canary Wharf.....	—	150	(283)	(150)	433
Private equity investments.....	(665)	(120)	230	(545)	(350)
Redeemable units.....	(40)	(2)	319	(38)	(321)
Transaction related gains	—	232	(31)	(232)	263
Impairments and other	(275)	(339)	(353)	64	14
	<u>\$ (130)</u>	<u>\$ 2,166</u>	<u>\$ 3,674</u>	<u>\$ (2,296)</u>	<u>\$ (1,508)</u>

Investment Properties

Our investment properties are recorded at fair value with changes recorded in net income. The following table disaggregates investment property fair value changes by asset type:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Core office	\$ 51	\$ 1,638	\$ 2,937	\$ (1,587)	\$ (1,299)
Opportunistic and other	909	637	329	272	308
	<u>\$ 960</u>	<u>\$ 2,275</u>	<u>\$ 3,266</u>	<u>\$ (1,315)</u>	<u>\$ (991)</u>

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

Office property appraisal gains in the year totalled \$51 million, compared to \$1.6 billion in the prior year. The appraisal gains reflect lower discount rates as a result of de-risking in our portfolio through leasing activity. The impact of rising interest rates was offset by the general compression of spreads between interest rates and capitalization rates for commercial properties. This was partially offset by lower pricing assumptions for projected lease renewals, particularly in commodity-based markets. Appraisal gains in 2015 related to a reduction in capitalization and discount rates as a result of improving markets within our New York, London, Toronto and Australian core office portfolios, and a positive impact on cash flow from leases signed during the period. In 2014, the office appraisal gains were primarily as a result of a decline in capitalization and discount rate as a result of improving economic conditions in the U.S.

We recorded fair value gains of \$909 million in opportunistic and other properties which consist of our industrial, multifamily, hospitality and other portfolio. We have been investing additional capital into this property class over the last three years, increasing the asset base on which we record fair value increments. The gains were mainly driven by improved leasing activity in certain industrial properties, higher projected cash flow in our multifamily and triple net lease portfolios, and lower terminal capitalization rates due to operational improvements and review of comparable transactions. We also recorded fair value gains on the recently acquired self-storage business, in which occupancy has increased since acquisition. Additionally, directly held investment properties generated \$283 million of gains as a result of improved performance at our multifamily services.

We discuss the key valuation inputs of our investment properties on page 31.

General Growth Properties Warrants

We hold warrants that are convertible into approximately 75 million common shares of GGP. The share price declined by 8% in the current year, resulting in a \$110 million loss. A smaller decline in share price in 2015 generated a \$30 million loss in the prior year. This loss was partially offset by our share of the mark-to-market decrease of \$36 million on the warrant liability by GGP, which is included in equity accounted income.

Investment in Canary Wharf

We commenced equity accounting for our investment in early 2015 after increasing our interest from 22% to 50% and since that time our share of valuation gains are recorded in equity accounted income. We recognized a \$150 million revaluation gain in 2015 based on the price paid when we acquired our additional interest in Canary Wharf. In 2014 we recorded increases of \$319 million, 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 the valuations of its commercial office properties.

Private Equity Investments

In the fourth quarter of 2016, a company owned within our private equity operation emerged from a multi-year restructuring process and our investment in debt securities of the company was converted into equity. The extinguishment of the debt and establishment of the equity as a new financial asset resulted in a reclassification of the prior unrealized fair value losses of \$447 million that had previously been recorded in OCI resulting in an impairment loss being recorded in net income in the current year. The impairment losses also included \$81 million of fair value changes recorded in the current period for these securities.

During the second quarter of 2016, we recognized a \$106 million impairment relating to certain non-core assets in an investee company that have been classified as held for sale. The impairment was based on the difference between the expected sale price of the assets and our IFRS carrying value.

Transaction Related Gains

Included in 2015 are two significant transaction related gains. First, in January of 2015 we acquired natural gas production facilities in western Canada valued at \$652 million for gross consideration of \$481 million, including debt financing. Secondly, 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 the acquisition cost resulting in a \$101 million gain based on the excess of the transaction value over our IFRS book value.

During the first quarter of 2014 we disposed of a partial interest in a private equity investee company, resulting in the deconsolidation 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.

Impairment and Other

We recognized \$85 million of impairments in 2016, compared with \$79 million in 2015 and \$121 million in 2014, related primarily to 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 \$92 million of provisions on projects under development at these operations in 2016, compared with \$97 million in 2015 and \$87 million in 2014.

Other fair value changes also include mark-to-market losses on financial contracts used to offset foreign currency and interest rate exposure.

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. Many of the assets in these businesses, with the exception of intangible assets, are revalued annually with changes recorded in OCI, but 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, as a result of acquisitions, development and disposition activities, the revaluation of carrying values and the impact of foreign currency revaluation on non-U.S. assets.

Depreciation and amortization is summarized in the following table:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Renewable power.....	\$ 805	\$ 638	\$ 566	\$ 167	\$ 72
Infrastructure.....	466	390	395	76	(5)
Private equity	389	337	225	52	112
Property.....	311	267	261	44	6
Other	49	63	23	(14)	40
	<u>\$ 2,020</u>	<u>\$ 1,695</u>	<u>\$ 1,470</u>	<u>\$ 325</u>	<u>\$ 225</u>

The increase in depreciation and amortization each year is driven by acquisitions and development projects, as well as increases resulting from our annual revaluation process. In 2016, the increase primarily relates to the following: our acquisitions of hydroelectric portfolios in Colombia and Pennsylvania in our renewable power operations; a U.S. gas storage business and Indian and Peruvian toll roads, as well as investments in internal growth capital projects, in our infrastructure operations; a full year's contribution from assets acquired throughout the prior year in our private equity operations; and the acquisition of a U.S. hospitality asset in our property operations. These increases were partially offset by the impact of depreciation eliminated on the previously sold infrastructure assets and the impact of foreign exchange on our non-U.S. dollar denominated operations.

Income Taxes

We recorded an aggregate income tax recovery of \$345 million in 2016, compared to a provision of \$196 million in 2015 and \$1.3 billion in 2014.

The two largest factors contributing to the variance between 2015 and 2016 were the effect of a reorganization of the ownership of certain property assets that resulted in a reduction in the applicable tax rates and the statutory decrease in the tax rates in the U.K., which together reduced our deferred tax expense by \$1.0 billion in the current year. Additionally, we recorded lower fair value gains on our investment properties in 2016 compared to 2015, which resulted in a reduction in the associated deferred income taxes. The prior year included a \$464 million deferred income tax recovery arising from a change in tax laws in the first quarter of that year that affected our North American office property operations.

Income tax expense includes current taxes of \$213 million (2015 – \$132 million) and a deferred tax recovery of \$558 million (2015 – expense of \$64 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 that 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, which are also predominately recorded in direct costs.

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

FOR THE YEARS ENDED DEC. 31	2016	2015	2014	Change	
				2016 vs 2015	2015 vs 2014
Statutory income tax rate	26 %	26%	26%	— %	— %
Increase (reduction) in rate resulting from:					
Change in tax rates and new legislation	(35)	(11)	4	(24)	(15)
International operations subject to different tax rates	(5)	(7)	(5)	2	(2)
Taxable income attributed to non-controlling interests.....	(2)	(6)	(5)	4	(1)
Other	4	2	—	2	2
Effective income tax rate	(12)%	4%	20%	(16)%	(16)%

The most significant change in our annual effective tax rate was a change in tax rates arising from the reorganization of certain of our U.S. property operations and a reduction of the U.K. tax rate, which resulted in a reduction in the effective tax rate. The lower tax rates are applied to cumulative timing differences, such as fair value gains, and resulted in a \$900 million reduction of deferred income tax liabilities that is recognized in the current period even though many of the timing differences occurred in prior periods.

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 5% decrease in our effective tax rate compared to a 7% reduction in 2015. The difference will vary from period to period depending on the relative proportion of income in each country.

As an asset manager, many of our operations are held in partially owned “flow through” entities, 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 interests in these entities, our consolidated tax provision includes only our proportionate share of the tax provision of these entities. In other words, we are consolidating all of the net income, but only our share of their tax provision. This gave rise to a 2% and 6% reduction in the effective tax rate relative to the statutory tax rate in 2016 and 2015, respectively.

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 \$1.7 billion in 2016 compared to \$2.3 billion in 2015 and \$2.1 billion in 2014, representing 51%, 50% and 40% 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. On June 20, 2016, we completed the spin-off of BBU resulting in a decrease of ownership in our private equity operations, as these operations were previously wholly owned.

In 2016, net income decreased in certain operations where we have a higher ownership, particularly in our office properties where we recorded a lower level of fair value gains compared to 2015 and 2014, and increased in certain operations where we have a higher ownership, particularly our infrastructure operations. We recorded \$149 million of realized carried interest in the period, which resulted in the reattribution of income from non-controlling interests to common equity.

Other Comprehensive Income (“OCI”)

Revaluation of Property, Plant and Equipment

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015	2014	Change	
				2016 vs 2015	2015 vs 2014
Renewable power.....	\$ 333	\$ 1,305	\$ 1,966	\$ (972)	\$ (661)
Infrastructure.....	396	688	708	(292)	(20)
Property and other.....	95	151	324	(56)	(173)
	<u>\$ 824</u>	<u>\$ 2,144</u>	<u>\$ 2,998</u>	<u>\$ (1,320)</u>	<u>\$ (854)</u>

Revaluation gains on property, plant and equipment totalled \$824 million in 2016, compared to a \$2.1 billion recorded in 2015 and \$3.0 billion recorded in 2014. 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 2016, revaluation gains were driven by contributions from growth capital deployed and expansion, as well as higher projected cash flows, partially offset by the impact of rising long-term interest rates on our discount rates. In 2015 and 2014, long-term return expectations decreased, evidenced by comparable asset sales, resulting in an increase in valuations of these assets. 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.

We discuss the key valuation inputs on page 34.

Financial Contracts and Other

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Financial contracts and power sales agreements	\$ (113)	\$ (22)	\$ (301)	\$ (91)	\$ 279
Available-for-sale securities	649	(485)	(105)	1,134	(380)
Revaluation of pension obligations	(40)	32	(77)	(72)	109
	<u>\$ 496</u>	<u>\$ (475)</u>	<u>\$ (483)</u>	<u>\$ 971</u>	<u>\$ 8</u>

Losses on financial contracts reflect market position of hedge-designated trades at year end. In 2016, fixed-rate swaps in our renewable power operation incurred higher losses due to improving power prices compared to the prior year. The losses in 2014 were a result of declining interest rates on the value of our interest rate contracts.

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. The available-for-sale securities reflects a reclassification of \$447 million related to unrealized losses previously recorded in OCI on the restructuring of debt securities to net income. The available-for-sale losses in 2015 include the unrealized losses on the aforementioned securities.

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 OCI. Changes in the value of currency contracts that qualify as hedges are also included in foreign currency translation. The following table disaggregates the impact of foreign currency translation on our equity by the most significant non-U.S. currencies:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Australian dollar.....	\$ (203)	\$ (496)	\$ (392)	\$ 293	\$ (104)
Brazilian real	1,314	(2,432)	(736)	3,746	(1,696)
British pound.....	(1,434)	(360)	(327)	(1,074)	(33)
Canadian dollar	286	(1,415)	(922)	1,701	(493)
Other	397	(349)	(337)	746	(12)
	<u>360</u>	<u>(5,052)</u>	<u>(2,714)</u>	<u>5,412</u>	<u>(2,338)</u>
Currency hedges.....	876	1,591	997	(715)	594
	<u>\$ 1,236</u>	<u>\$ (3,461)</u>	<u>\$ (1,717)</u>	<u>\$ 4,697</u>	<u>\$ (1,744)</u>

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. We hedged the majority of our exposure on the British pound and, accordingly, currency hedging gains include gains on these contracts. We typically do not hedge our Brazilian real equity due to the high cost associated with these contracts, which produced the majority of our net foreign currency translation gain in 2016 and loss in 2015.

Equity Accounted Other Comprehensive Income

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

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Infrastructure.....	\$ 486	\$ 303	\$ 164	\$ 183	\$ 139
Renewable power.....	9	76	58	(67)	18
Property.....	8	54	11	(46)	43
Private equity and other.....	(73)	82	(10)	(155)	92
	<u>\$ 430</u>	<u>\$ 515</u>	<u>\$ 223</u>	<u>\$ (85)</u>	<u>\$ 292</u>

Equity accounted OCI in our infrastructure operations includes revaluation surplus recorded within our Chilean transmission investment, our Brazilian toll road portfolio and, commencing in 2016, our European communications infrastructure investment. During 2016, the increase of \$183 million mainly relates to an uplift in the property, plant and equipment revaluation of the European communications investment, resulting in a higher equity accounted OCI compared to the prior year.

In 2015, we purchased a western Australia oil and gas investment within our private equity operations and entered into financial contracts to lock in the price of its scheduled production. The decrease in commodity prices resulted in an \$85 million gain on these contracts in that year. In 2016, the unrealized gains were reclassified into the income statement as the contracts were settled, resulting in a reduction in OCI. Additionally, we sold part of the business in 2016 which further decreased the previous unrealized gains.

FINANCIAL PROFILE

Consolidated Assets

The following table presents our consolidated assets at December 31, 2016, December 31, 2015, and December 31, 2014:

AS AT DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Investment properties.....	\$ 54,172	\$ 47,164	\$ 46,083	\$ 7,008	\$ 1,081
Property, plant and equipment.....	45,346	37,273	34,617	8,073	2,656
Equity accounted investments.....	24,977	23,216	14,916	1,761	8,300
Cash and cash equivalents.....	4,299	2,774	3,160	1,525	(386)
Financial assets.....	4,700	6,156	6,285	(1,456)	(129)
Accounts receivable and other.....	9,133	7,044	8,845	2,089	(1,801)
Inventory.....	5,349	5,281	5,620	68	(339)
Intangible assets.....	6,073	5,170	4,327	903	843
Goodwill.....	3,783	2,543	1,406	1,240	1,137
Deferred income tax asset.....	1,562	1,496	1,414	66	82
Assets classified as held for sale.....	432	1,397	2,807	(965)	(1,410)
	<u>\$ 159,826</u>	<u>\$ 139,514</u>	<u>\$ 129,480</u>	<u>\$ 20,312</u>	<u>\$ 10,034</u>

Consolidated assets at December 31, 2016 were \$159.8 billion, an increase of \$20.3 billion since December 31, 2015 and an increase of \$10.0 billion from December 31, 2014 to 2015. The increase is primarily due to higher carrying values of our investment properties, property, plant and equipment and equity accounted investments which are discussed below and are predominantly due to acquisitions during the year. Our assets also increased as a result of the appreciation of the Brazilian real against the U.S. dollar, partially offset by a decrease in the value of the British pound.

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 presentation is appropriate given the nature of our business strategy.

Foreign Currency Translation

The most significant currency exchange rates that impact our balance sheet are shown in the following table:

AS AT DEC. 31	Year-end Spot Rate			Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Australian dollar.....	0.7197	0.7287	0.8172	(1)%	(11)%
Brazilian real.....	3.2595	3.9604	2.6504	18 %	(49)%
British pound.....	1.2357	1.4736	1.5578	(16)%	(5)%
Canadian dollar	0.7439	0.7227	0.8608	3 %	(16)%

As at December 31, 2016, our IFRS net equity of \$22.5 billion was invested in the following currencies: United States dollars – 57%; Brazilian reais – 15%; British pounds – 13%; Australian dollars – 9%; Canadian dollars – 4%; and other currencies – 2%. From time to time, we utilize financial contracts to adjust these exposures.

Investment Properties

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Balance, beginning of year	\$ 47,164	\$ 46,083
Acquisitions and additions.....	10,810	6,932
Dispositions ¹	(4,612)	(5,924)
Fair value changes	960	2,275
Foreign currency translation	(150)	(2,202)
Total change.....	7,008	1,081
Balance, end of year.....	\$ 54,172	\$ 47,164

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

Acquisitions and additions of \$10.8 billion include \$9.2 billion of acquisitions within our property operations. Significant acquisitions in 2016 include a mixed-use property in South Korea, a U.S. self-storage business, a U.K. student housing portfolio and the reclassification of properties within a retail mall business in the U.S., which was equity accounted prior to our acquisition of full control during the year. Additions represent capital expenditures on existing properties and development projects.

Dispositions in the current year include mature office properties such as properties in Sydney and Vancouver and the sale of partial interest in a building in New York. Dispositions also include the reclassification of \$165 million of properties to assets held for sale as at year end, including two industrial assets in France, a portfolio of multifamily assets in the U.S. and several triple net lease assets in the U.S.

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, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property.

The key valuation metrics of our investment properties 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.

AS AT DEC. 31	Core Office		Opportunistic and Other ¹		Weighted Average	
	2016	2015	2016	2015	2016	2015
Discount rate.....	6.7%	6.8%	7.6%	7.2%	7.1%	6.9%
Terminal capitalization rate.....	5.6%	5.7%	7.6%	7.6%	6.2%	6.0%
Investment horizon (years)	12	11	10	8	11	11

1. Valuation metrics for opportunistic and other as at December 31, 2016 includes Rouse, which was consolidated following our privatization of the business in the second half of 2016. Rouse was previously equity accounted and thus was not included in our valuation metrics for consolidated investment properties in the prior year. Excluding the impact of Rouse, discount rate, terminal capitalization rate and investment horizon in opportunistic and other were 7.3%, 7.4% and 9 years, respectively

In determining the fair value of investment properties, management uses external information and observable conditions, where possible, supplemented by internal analysis, as required. The determination of fair value requires the use of estimates, which have been applied in a manner consistent with that in the prior year. There are currently no known trends, events or uncertainties that we reasonably believe could have a sufficiently pervasive impact across our businesses, which is diversified by asset class, geography and market, to materially affect the methodologies or assumptions utilized to determine the estimated fair values reflected in this report. Discount rates and capitalization rates are inherently uncertain and may be impacted by, among other things, movements in interest rates in the geographies and markets in which the assets are located. Changes in estimates across different geographies and markets, such as discount rates and terminal capitalization rates, often move independently to one another and not necessarily in the same direction or to the same degree. Furthermore, impacts on our estimated values from changes in discount rates / terminal capitalization rates and cash flows 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 at the asset level.

The following table presents the impact on the fair value of our investment properties as at December 31, 2016 from a 25 basis point change to the relevant unobservable inputs. For properties valued using the discounted cash flow method, the basis point change in valuation metrics relates to a change in discount and terminal capitalization rates. For properties valued using the direct capitalization approach, the basis point change in valuation metrics relates to a change in the overall capitalization rate.

AS AT DEC. 31
(MILLIONS)

	2016
Core office	
United States.....	\$ 780
Canada	285
Australia	122
Europe.....	21
Brazil	9
Opportunistic and other	
Opportunistic office.....	200
Opportunistic retail	373
Industrial.....	63
Multifamily.....	174
Triple net lease.....	188
Self-storage.....	62
Student housing	25

Property, Plant and Equipment

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Renewable Power		Infrastructure		Property		Private Equity and Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Balance, beginning of year	\$ 19,738	\$ 19,970	\$ 8,338	\$ 9,061	\$ 5,316	\$ 2,872	\$ 3,881	\$ 2,714	\$ 37,273	\$ 34,617
Acquisitions and additions	6,099	1,444	1,618	571	874	2,708	162	2,081	8,753	6,804
Dispositions ¹	(12)	(298)	(9)	(536)	26	(71)	(160)	(192)	(155)	(1,097)
Fair value changes.....	317	1,324	388	654	82	161	—	(67)	787	2,072
Depreciation	(803)	(612)	(372)	(338)	(244)	(189)	(340)	(337)	(1,759)	(1,476)
Foreign currency translation ..	1,214	(2,090)	(418)	(1,074)	(402)	(165)	53	(318)	447	(3,647)
Total change.....	6,815	(232)	1,207	(723)	336	2,444	(285)	1,167	8,073	2,656
Balance, end of year.....	\$ 26,553	\$ 19,738	\$ 9,545	\$ 8,338	\$ 5,652	\$ 5,316	\$ 3,596	\$ 3,881	\$ 45,346	\$ 37,273

1. Includes reclassification to held for sale

We measure PP&E in our renewable power and infrastructure operations, as well as hospitality properties within our property operations, using the revaluation method, which results in these assets being fair valued at the end of each fiscal year, and then depreciated quarterly, based on the carrying value. PP&E within our private equity and other operations is carried at amortized cost.

The impact of foreign exchange led to an increase in PP&E in the current year of \$447 million due to positive foreign currency revaluation on non-U.S. assets, predominantly on those denominated in Brazilian reais and Colombian pesos, partially offset by the impact of the British pound on U.K. assets.

In determining the fair value of PP&E, management uses external information and observable conditions, where possible, supplemented by internal analysis as required. The determination of fair value requires the use of estimates, which have been applied in a manner consistent with the prior year. There are currently no known trends, events or uncertainties that we reasonably believe could have a sufficiently pervasive impact across our businesses, which is diversified by asset class, geography and market, to materially affect the methodologies or assumptions utilized to determine the estimated fair values reflected in this report. Discount rates and capitalization rates are inherently uncertain and may be impacted by, among other things, movements in interest rates in the geographies and markets in which the assets are located. Changes in estimates across different geographies and markets, such as discount rates and terminal capitalization rates, often move independently to one another and not necessarily in the same direction or to the same degree. Furthermore, impacts on our estimated values from changes in discount rates / terminal capitalization rates and cash flows 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 at the asset level.

Renewable Power

Acquisitions and additions of \$6.1 billion within our renewable power operations include a 3,032 megawatts (“MW”) hydroelectric portfolio in Colombia, a 51 MW hydroelectric portfolio in Brazil and a 296 MW hydroelectric portfolio in Pennsylvania.

The revaluation of property, plant and equipment in our renewable power operations resulted in a \$317 million increase in the recorded fair value, primarily attributed to the timing of operating cash flows being realized earlier compared to the prior year and operational improvements in our Brazilian business, offset by expansion of discount rates in North America.

Valuations of our renewable power assets are impacted primarily by discount rates and long-term power prices. Discount rates are based on 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 developing new renewable power facilities, expected to be primarily wind facilities 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 based on the anticipated retirement of older coal fired plants and the Environmental Protection Agency emission compliance deadlines. We determine future prices by applying a discount to 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 these concessions

will be renewed 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 2016 and 2015 are summarized below.

	North America		Brazil		Europe	
AS AT DEC. 31	2016	2015	2016	2015	2016	2015
Discount rate						
Contracted	4.8% – 5.5%	4.7% – 5.4%	9.2%	9.2%	4.1% – 5.0%	5.0%
Uncontracted	6.6% – 7.2%	6.4% – 7.1%	10.5%	10.5%	5.9% – 6.8%	6.8%
Terminal capitalization rate ¹	6.3% – 6.9%	6.3% – 6.9%	n/a	n/a	n/a	n/a
Exit date	2036	2035	2031	2033	2031	2031

1. The terminal capitalization rate applies only to hydroelectric assets in North America

The following table presents the impact on fair value of property, plant and equipment in our Renewable Power segment as at December 31, 2016 from a 25 basis point change in discount and terminal capitalization rates, as well as a 5% change in electricity prices:

AS AT DEC. 31 (MILLIONS)	2016
25 bps change in discount and terminal capitalization rates¹	
North America.....	\$ 963
Brazil.....	50
Europe.....	20
5% change in electricity prices	
North America.....	832
Brazil.....	70
Europe.....	20

1. Terminal capitalization rate applies only to hydroelectric assets in North America

Terminal values are included in the valuation of hydroelectric assets in the United States and Canada. For the hydroelectric assets in Brazil, cash flows have been included based on the duration of the authorization or useful life of a concession asset without consideration of potential renewal value. The weighted-average remaining duration at December 31, 2016 is 15 years (2015 – 18 years). Consequently, there is no terminal value attributed to the hydroelectric assets in Brazil.

Infrastructure

Additions in our Infrastructure segment include investments in internal growth capital projects, as well as the acquisition of an Australian ports business (\$229 million) and a U.S. gas storage business (\$825 million).

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 associated revenue streams and geography where they are located. The \$388 million increase in value of our infrastructure assets was primarily due to growth capital deployed in the year, higher cash flows in our U.K. 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 DEC. 31	2016	2015	2016	2015	2016	2015
Discount rate	7% – 12%	8% – 12%	10% – 17%	11% – 15%	9% – 14%	10% – 15%
Terminal capitalization multiples.....	7x – 18x	8x – 17x	8x – 14x	10x – 14x	10x – 12x	7x – 12x
Investment horizon / Termination valuation date (years)	10 – 20	10 – 20	10 – 20	10 – 20	10	10

Property

Property PP&E primarily consists of hotel and resort operations. The overall increase of \$336 million primarily relates to the acquisition of a 5.4 million square foot mixed-use complex in South Korea with \$303 million of PP&E, as well as the acquisition of a U.S. hospitality asset for \$197 million.

Key valuation assumptions for our hospitality operations included a weighted-average discount rate of 10.2% (2015 – 10.0%), terminal capitalization rate of 7.4% (2015 – 7.4%) and investment horizon of six years (2015 – seven years).

Private Equity

PP&E in our private equity operations decreased by \$285 million, primarily relating to the reclassification of certain operations to assets held for sale. In addition, PP&E at our Canadian oil and gas properties decreased due to a change in the asset retirement obligation (“ARO”). We recorded a change in the timing of future remediation costs, resulting in a lower ARO liability and a corresponding reduction to the PP&E balance.

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 YEAR ENDED DEC. 31, 2016 (MILLIONS)	Property					Private Equity and Other	Total
	GGP	Canary Wharf	Other	Renewable Power	Infrastructure		
Balance, beginning of year	\$ 7,215	\$ 3,400	\$ 6,879	\$ 197	\$ 4,690	\$ 835	\$ 23,216
Additions	—	—	607	—	1,666	93	2,366
Dispositions ¹	—	—	(1,465)	—	—	(126)	(1,591)
Share of net income (loss)	476	10	445	—	314	48	1,293
Share of other comprehensive income (loss)	4	(4)	7	9	486	(72)	430
Distributions received	(266)	—	(242)	(6)	(85)	(76)	(675)
Foreign currency translation and other	24	(540)	78	6	275	95	(62)
Total change	238	(534)	(570)	9	2,656	(38)	1,761
Balance, end of year	\$ 7,453	\$ 2,866	\$ 6,309	\$ 206	\$ 7,346	\$ 797	\$ 24,977

1. Includes reclassification of equity accounted investments that are held for sale

Our largest equity accounted investments are within our property operations and include a 29% interest in GGP with a carrying value of \$7.5 billion at December 31, 2016 and our investment in Canary Wharf at \$2.9 billion. 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. Changes in the carrying values of equity accounted investments typically relate to the purchase or sale of shares and our share of their comprehensive income, including fair value changes, and are reduced by our share of any dividends and other distributions.

Equity accounted investments increased by \$1.8 billion during the year ended December 31, 2016 primarily as a result of investments we have made throughout the year of \$2.4 billion, as well as our share of net income of \$1.3 billion and revaluation gains in OCI of \$430 million. Additions mainly included investments in a Brazilian toll road, a North American gas transmission business and an Australian ports and logistic business. These increases were partially offset by dispositions throughout the year, including a portfolio of hospitality assets in Germany and two industrial assets in the U.S. Furthermore, we completed the privatization of a U.S. regional mall business during the year, resulting in these assets being consolidated and, therefore, a reclassification of our \$354 million previously held equity accounted interest.

Financial Assets

Financial assets decreased by \$1.5 billion since December 31, 2015 primarily as a result of commencing equity accounting and consolidating investments in an Australian logistics operation and a North American gas storage business that were previously classified as financial assets, following increases in our ownership interests. We also recorded a valuation decline in a private equity financial asset investment.

Accounts Receivable and Other

Accounts receivable and other assets increased by \$2.1 billion. Our private equity operations balance increased by over \$300 million primarily due to increased project volumes in our construction services and facilities management business. Our Brazilian residential operations balance increased by \$418 million as a result of higher home closings late in the current year as compared to the prior year. Acquisitions during the year throughout all our businesses have further increased the balance by \$1.0 billion, particularly from our Colombian hydroelectric plants, North American gas storage business and our Peruvian toll roads.

Intangible Assets

Intangible assets increased by \$0.9 billion compared to December 31, 2015, which is primarily due to the acquisition of toll road businesses in Peru and India.

Goodwill

Goodwill increased by \$1.2 billion compared to December 31, 2015 due to \$808 million of goodwill arising from the acquisition of hydroelectric facilities in Colombia, \$210 million on the acquisition of an Australian ports and logistics business and \$139 million on the acquisition of a toll road business in Peru.

Assets Classified as Held for Sale

Assets classified as held for sale as at December 31, 2016 included industrial assets in Europe and several portfolios of multifamily and triple net lease assets in the United States. The decrease of \$965 million in the year is primarily a result of completion of sale of assets that were previously classified as held for sale as of last year end.

At December 31, 2015 assets classified as held for sale included \$775 million of investment properties, which was mainly comprised of two office properties in Sydney and Vancouver, as well as a portfolio of industrial assets near the U.S.-Mexico border, two multifamily assets in the United States, and \$580 million of infrastructure assets including a Canadian electricity transmission utility and a U.K. regulated distribution business.

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 DEC. 31 (MILLIONS)	Change				
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Corporate borrowings	\$ 4,500	\$ 3,936	\$ 4,075	\$ 564	\$ (139)
Non-recourse borrowings					
Property-specific borrowings	52,442	46,044	40,364	6,398	5,680
Subsidiary borrowings	7,949	8,303	8,329	(354)	(26)
Non-current accounts payable and other liabilities ¹ ..	4,194	3,806	4,354	388	(548)
Subsidiary equity obligations.....	3,565	3,331	3,541	234	(210)
	<u>\$ 72,650</u>	<u>\$ 65,420</u>	<u>\$ 60,663</u>	<u>\$ 7,230</u>	<u>\$ 4,757</u>

1. Excludes accounts payable and other liabilities that are due within one year. See Note 16 to our consolidated financial statements for 2016 and 2015 balances

Corporate borrowing increased by \$564 million due to the \$867 million issuance of corporate notes during the year, partially offset by a repayment of C\$300 million of notes and the impact of foreign exchange on the Canadian dollar.

Property-specific borrowings increased by \$6.4 billion during 2016 due to \$5.2 billion of debt assumed on acquisitions as well as debt arranged in individual businesses that we consolidate, partially offset by the elimination of debt associated with assets sold. Borrowings are generally denominated in the same currencies as the assets they finance and therefore changes in the value of the U.S. dollar during the period resulted in our non-U.S. dollar denominated borrowings increasing in value.

Subsidiary borrowings decreased by \$354 million as a result of repayments of the credit facility balances outstanding at the end of the prior year, partially offset by draws on subsidiary credit facilities to fund acquisitions and development projects, as well as C\$500 million issuance in BEP during the third quarter of 2016.

Equity

Equity consists of the following components:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Common Equity		Preferred Equity		Non-Controlling Interests		Total Equity	
	2016	2015	2016	2015	2016	2015	2016	2015
Balance, beginning of year	\$ 21,568	\$ 20,153	\$ 3,739	\$ 3,549	\$ 31,920	\$ 29,545	\$ 57,227	\$ 53,247
Net income	1,651	2,341	—	—	1,687	2,328	3,338	4,669
Other comprehensive income (loss)	821	(780)	—	—	1,992	(945)	2,813	(1,725)
Shareholder distributions	(1,074)	(584)	—	—	(1,722)	(1,500)	(2,796)	(2,084)
Equity issuances, net of repurchase	(124)	926	215	190	7,649	2,371	7,740	3,487
Ownership changes and other	(343)	(488)	—	—	1,709	121	1,366	(367)
Total change	931	1,415	215	190	11,315	2,375	12,461	3,980
Balance, end of year	\$ 22,499	\$ 21,568	\$ 3,954	\$ 3,739	\$ 43,235	\$ 31,920	\$ 69,688	\$ 57,227

Common equity increased by \$0.9 billion to \$22.5 billion during the year. Net income and other comprehensive income attributable to shareholders for the year totalled \$1,651 million and \$821 million, respectively. We distributed \$633 million to shareholders as common and preferred share dividends, in addition to a 21% interest in BBU through a special non-cash distribution to shareholders in the second quarter of 2016. The special dividend of \$441 million was accounted for as a distribution of equity to non-controlling interests and represented 21% of the IFRS carrying value of the net assets spun-off with corresponding recognition of non-controlling interests.

Non-controlling interests increased by \$11.3 billion in 2016. Net issuances of equity to non-controlling interests were \$7.6 billion and included \$2.6 billion of equity raised in connection with the acquisition of a portfolio of Colombian hydroelectric facilities in the first quarter and \$1.4 billion of non-controlling interests issued as part of the acquisitions in our property and infrastructure operations, which was partially offset by distributions totalling \$1.7 billion.

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

SUMMARY OF QUARTERLY RESULTS

Our condensed statements of operations for the eight most recent quarters are as follows:

FOR THE PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	\$ 6,935	\$ 6,285	\$ 5,973	\$ 5,218	\$ 5,538	\$ 5,056	\$ 4,923	\$ 4,396
Net income	97	2,021	584	636	1,187	845	1,199	1,438
Net income to shareholders	173	1,036	185	257	678	289	645	729
Per share								
- diluted	\$ 0.14	\$ 1.03	\$ 0.15	\$ 0.23	\$ 0.66	\$ 0.26	\$ 0.62	\$ 0.73
- basic	0.15	1.05	0.16	0.23	0.67	0.27	0.64	0.75

In the past two years, the quarterly variances in revenues were due primarily to acquisitions and dispositions. Variances in net income to shareholders relate primarily to the timing and amount of fair value changes and deferred tax provisions recognized, 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.

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, resulting in relatively consistent amounts of revenue on a quarterly basis. Our retail properties typically experience seasonally higher retail sales during the fourth quarter, and our resort hotels tend to experience higher revenues and costs as a result of increased visits during the first quarter. We fair value our property assets on a quarterly basis which results in variations in net income based on changes in the value of our property portfolio.

Renewable hydroelectric power operations are seasonal in nature. Generation tends to be higher during the winter rainy season in Brazil and spring thaws in North America; however, this is mitigated to an extent by prices, which tend not to be as strong as they are in 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 and prices, 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 residential development 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.

The following table shows fair value changes and income taxes for the last eight quarters, as well as their combined impact on net income:

FOR THE PERIODS ENDED (MILLIONS)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Fair value changes	\$ (488)	\$ (59)	\$ 65	\$ 352	\$ 594	\$ 389	\$ 70	\$ 1,113
Income taxes	(211)	992	(234)	(202)	(218)	(145)	368	(201)
Net impact.....	<u>\$ (699)</u>	<u>\$ 933</u>	<u>\$ (169)</u>	<u>\$ 150</u>	<u>\$ 376</u>	<u>\$ 244</u>	<u>\$ 438</u>	<u>\$ 912</u>

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

In the fourth quarter of 2016, the effect of overall increases in revenues across our businesses were offset by an impairment of \$530 million on certain financial assets as a result of lower valuations based on stock market prices in our private equity operations.

In the third quarter of 2016, we recognized a \$900 million tax recovery which resulted from a reduction in effective tax rates arising from the restructuring of certain of our U.S. property operations, of which \$600 million was attributable to shareholders.

In the first and second quarters of 2016, revenues increased from the acquisition of our Colombian hydroelectric facilities, opportunistic property assets and private equity investments. The second quarter of 2016 also includes \$208 million of revenue on the sale of three multifamily developments and additional revenue following an increase in the scale of our construction operations.

In the fourth quarter of 2015, we recorded \$594 million of fair value gains related to our office properties. Our revenues also reflected completion of significant projects in our construction services business and home closings in our residential development business.

In the third quarter of 2015, we acquired a U.K. 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, of which \$314 million was 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.

CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities by class during the past three years are summarized in the following table:

	Distribution per Security		
	2016	2015 ¹	2014 ¹
Class A and B Limited Voting Shares (“Class A and B shares”) ²	\$ 0.52	\$ 0.47	\$ 0.45
Special distribution to Class A and Class B shares ³	0.45	—	—
Class A Preferred Shares			
Series 2	0.36	0.39	0.48
Series 4 + Series 7	0.36	0.39	0.48
Series 8	0.48	0.55	0.68
Series 9	0.75	0.74	0.86
Series 12 ⁴	—	—	0.33
Series 13	0.36	0.38	0.47
Series 14 ⁵	0.11	1.40	1.71
Series 15	0.23	0.24	0.38
Series 17	0.90	0.93	1.08
Series 18	0.90	0.93	1.08
Series 22 ⁶	—	—	1.20
Series 24	0.80	1.06	1.22
Series 25 ⁷	0.27	—	—
Series 26	0.85	0.88	1.02
Series 28	0.87	0.90	1.04
Series 30	0.90	0.94	1.09
Series 32	0.85	0.88	1.02
Series 34	0.80	0.82	0.95
Series 36	0.92	0.95	1.10
Series 37	0.92	0.96	1.11
Series 38 ⁸	0.83	0.86	0.80
Series 40 ⁹	0.85	0.88	0.58
Series 42 ¹⁰	0.85	0.88	0.23
Series 44 ¹¹	0.94	0.23	—

1. 2015 and 2014 dividends to the Class A and Class B shares have been adjusted to reflect a three-for-two stock split on May 12, 2015

2. Actual dividend per Class A and Class B share paid in Q1 2014 was \$0.13 for the period from November to February, equivalent to \$0.10 on a three-month basis

3. Distribution of a 20.7% interest in Brookfield Business Partners on June 20, 2016, based on IFRS values

4. Redeemed April 7, 2014

5. Redeemed March 1, 2016

6. Redeemed September 30, 2014

7. Issued July 1, 2016

8. Issued March 13, 2014

9. Issued June 5, 2014

10. Issued October 8, 2014

11. Issued October 2, 2015

Dividends on the Class A and Class 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 our asset management business, five operating groups and our corporate activities, which collectively represent seven operating segments for internal and external reporting purposes. We measure performance primarily using Funds from Operations (“FFO”) 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 include managing our listed partnerships, private funds and public securities on behalf of our clients and ourselves. We generate contractual base management fees for these activities as well as incentive distributions and performance income, including performance fees, transaction fees and carried interest.
- 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 and other power generating facilities.
- iv. *Infrastructure* operations include the ownership, operation and development of utilities, transport, energy, communications and agricultural assets.
- v. *Private equity* operations include a broad range of industries, and are mostly focused on construction, other business services, energy, and industrial operations.
- vi. *Residential development* operations consist of homebuilding, condominium development and land development.
- vii. *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 technology and operations are incurred on behalf of our operating segments and allocated to each operating segment based on an internal pricing framework.

In the second quarter of 2016, we formed Brookfield Business Partners L.P. (“BBU”) and distributed a partial interest to shareholders. BBU is the primary vehicle through which we own and operate businesses within our private equity business segment. In connection with the formation of BBU, we realigned the organizational and governance structure of the businesses held by BBU and changed how the company presents information for financial reporting and management decision making which resulted in a change in the company’s operating segments. Specifically, our private equity reportable segment now includes BBU, Norbord Inc. (“Norbord”) and certain other directly held investments; whereas at December 31, 2015, certain of the businesses within BBU were reported within a separate service activities segment, which is no longer considered a reportable segment.

Segment Financial Measures

FFO is a key measure of our financial performance and our segment measure of profit and loss. We use FFO to assess operating results and the performance of our businesses on a segmented basis. We define FFO as net income excluding fair value changes, depreciation and amortization and deferred income taxes, net of non-controlling interests. When determining FFO, we include our proportionate share of the FFO from equity accounted investments on a fully diluted basis. FFO also includes realized disposition gains/losses, which are gains or losses arising from transactions during the reporting period, adjusted to include associated fair value changes and revaluation surplus recorded in prior periods, taxes payable or receivable in connection with those transactions, as well as amounts that are recorded directly in equity, such as ownership changes.

We use FFO to assess our performance as an asset manager and separately as an investor in our assets. FFO includes the fees that we earn from managing capital as well as our share of revenues earned and costs incurred within our operations, which include interest expense and other costs. Specifically, FFO includes the impact of contracts that we enter into to generate revenue, including asset management agreements, power sales agreements and contracts that our operating businesses enter into such as leases and take or pay contracts, and sales of inventory. FFO also includes the impact of changes in leverage or the cost of that financial leverage as well as other costs incurred to operate our business.

We use realized disposition gains/losses within FFO in order 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.

We exclude depreciation and amortization from FFO, as we believe that the value of most of our assets typically increase over time, provided we make the necessary maintenance expenditures, the timing and magnitude of which may differ from the amount of depreciation recorded in any given period. As noted above, unrealized fair value changes are excluded from FFO until the period in which the asset is sold. We also exclude deferred income taxes from FFO because the vast majority of the company's deferred income tax assets and liabilities are a result of the revaluation of our assets under IFRS.

Our definition of FFO may differ from the definition used by other organizations, as well as the definition of FFO 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 FFO and the determination of FFO by REALPAC and/or NAREIT are that we include the following: realized disposition gains or losses and cash 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 FFO for each segment and reconcile the sum of reportable segment FFO to net income in Note 3 of the consolidated financial statements and on page 43. 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 analyze our deconsolidated balance sheet and to assist in capital allocation decisions.

In assessing results, we separately identify the portion of FFO and common equity by segment that relates to our primary listed partnerships: Brookfield Property Partners ("BPY"), Brookfield Renewable Partners ("BEP"), Brookfield Infrastructure Partners ("BIP") and Brookfield Business Partners ("BBU"). We believe that identifying the 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 is helpful in analyzing variances in segment FFO between reporting periods. We also separately identify the components of our asset management FFO and realized disposition gains included within the FFO of each segment in order to facilitate analysis of variances in FFO between reporting periods.

Non-IFRS Measures, Operating Metrics and Other Performance Measures

In addition to FFO and common equity by segment, the following sections also utilize certain non-IFRS measures, operating metrics and other performance measures that we employ to describe and assess our 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 others.

Non-IFRS Measures

Total Reportable Segment FFO is a non-IFRS measure that represents the sum of FFO for all segments.

Unrealized Carried Interest 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 interest in future periods and believe that it is useful to investors for the same reason.

Operating Metrics and Other Performance Measures

Below summarizes certain key definitions that are relevant to our business as an asset manager.

Base Management Fees are determined by contractual arrangements, are typically equal to a percentage of fee bearing capital, and are accrued quarterly. Private fund base fees are typically earned on fee bearing capital from third-party clients only and are typically, but not always, earned on both invested and uninvested capital. Base fees from listed partnerships are earned on the total capitalization of the listed partnerships which includes our investment.

Carried Interest is a contractual arrangement whereby we receive a fixed percentage of investment returns generated within a private fund provided that the investors receive a predetermined minimum return. Carried interest is 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 interest in our financial statements until they are no longer subject to adjustment based on future events. We typically only include carried interest earned in respect of third-party capital when determining our segment results.

Fee Bearing Capital represents the capital committed, pledged or invested in the listed partnerships, private funds and public securities that we manage which entitle us to earn fee revenues and/or carried interest. Fee bearing capital includes both invested and uninvested (i.e. uncalled) amounts, as well as amounts invested directly by clients (co-investments). 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 associated with earning those fees. 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 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 BPY, BEP and BIP and represent a portion of distributions paid by listed partnerships above a predetermined threshold. Incentive distributions are accrued on the record date of the associated distributions of the entity.

Performance Fees are paid to us when we exceed predetermined investment returns within BBU and on certain portfolios managed in our public securities activities. BBU performance fees are accrued quarterly, whereas performance fees within public security funds are typically determined on an annual basis, and are not subject to clawback.

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.

Below summarizes certain key definitions that are relevant when analyzing segment results.

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.

Economic Ownership Interest represents the company's proportionate equity interest in BPY, BEP, BIP, and BBU 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.

Long-term Average Generation ("LTA") 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.

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 statements 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 or Same-Property 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.

SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents FFO and common equity by segment on a year-over-year basis for comparison purposes:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Funds from Operations				Common Equity by Segment			
	2016	2015	Change		2016	2015	Change	
Asset management	\$ 866	\$ 528	\$ 338	64 %	\$ 328	\$ 328	\$ —	— %
Property	1,561	1,387	174	13 %	16,727	16,265	462	3 %
Renewable power	180	233	(53)	(23)%	4,826	4,424	402	9 %
Infrastructure	374	252	122	48 %	2,697	2,203	494	22 %
Private equity	405	334	71	21 %	2,862	2,178	684	31 %
Residential development	63	135	(72)	(53)%	2,679	2,221	458	21 %
Corporate activities	(212)	(310)	98	32 %	(7,620)	(6,051)	(1,569)	(26)%
	<u>\$ 3,237</u>	<u>\$ 2,559</u>	<u>\$ 678</u>	<u>26 %</u>	<u>\$ 22,499</u>	<u>\$ 21,568</u>	<u>\$ 931</u>	<u>4 %</u>

Impact of Foreign Currencies on Segment Results

Approximately half of our capital is invested in non-U.S. countries and the cash flow generated from these businesses, as well as our equity, is subject to changes in foreign currency exchange rates. From time to time, we utilize financial contracts to adjust these exposures. During the current year, local currencies in the jurisdictions where we hold the majority of our non-U.S. dollar investments strengthened relative to the U.S. dollar when compared to prevailing rates in 2015. Similarly, when compared to the prior year end, local currencies in which our equity is denominated appreciated against the U.S. dollar, with the exception of the British pound. Other factors being held constant, currency movements, net of hedging, increased total common equity by segment by \$405 million since the prior year end and decreased total segment FFO by \$25 million.

Reconciliation of Total Segment FFO to Net Income

The following table reconciles total segment FFO to net income:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Total segment FFO.....	\$ 3,237	\$ 2,559
Realized disposition gains recorded as fair value changes or prior periods	(766)	(847)
Non-controlling interests in FFO	2,917	2,288
Financial statement components not included in FFO		
Equity accounted fair value changes and other non-FFO items	(458)	262
Fair value changes	(130)	2,166
Depreciation and amortization	(2,020)	(1,695)
Deferred income taxes	558	(64)
Net income	<u>\$ 3,338</u>	<u>\$ 4,669</u>

ASSET MANAGEMENT

Overview

Our asset management operations consist of managing listed partnerships, private funds and public securities portfolios. As at December 31, 2016, we managed \$110 billion of fee bearing capital, of which \$88 billion was from clients and \$22 billion was from the Corporation.

Listed Partnerships: We manage \$49 billion of fee bearing capital through publicly listed perpetual capital entities, including BPY, BEP, BIP, BBU, Brookfield Canada Office Properties (“BOX”) and Acadian Timber Corp. We are compensated for managing these entities through base management fees, which are primarily determined by the market capitalization of these entities and incentive distributions and performance fees. Incentive distributions for BPY, BEP and BIP are equal to a portion of the increases in partnership distributions above predetermined hurdles. Performance fees for BBU are based on increases in the unit price of BBU above a high water mark.

Private Funds: We manage \$50 billion of fee bearing capital through 38 private funds. Closed-ended private fund capital is typically committed for 10 years from the inception of a fund with two one-year extension options. Open-ended private capital is committed in perpetuity, however, private fund investors may redeem their capital, subject to certain provisions, including that commitment being replaced by another client's. Our private fund investor base consists of approximately 455 clients with an average commitment of \$110 million. We are compensated for managing these private funds through base fees which are generally determined on both called and uncalled commitments, and are entitled to receive carried interest, which represent a portion of investment returns provided that clients receive a minimum predetermined return.

Public Securities: We manage \$11 billion of fee bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities. We act as both advisor and sub-advisor and earn base and performance fees.

Asset management revenues include fees earned by us in respect of capital managed for clients as well as the capital provided by Brookfield with respect to fees earned from listed partnerships. This is representative of how we manage the business and more appropriately measures the returns from our asset management activities. Fee bearing capital provided by Brookfield consists largely of the Corporation's economic ownership interests in BPY, BEP, BIP and BBU.

We do not recognize carried interest until the end of the relevant determination period under IFRS, which typically occurs at or near the end of a fund term. Please refer to accounting policies in note 2 of our Financial Statements. We do however, provide supplemental information on the estimated amount of unrealized carried interest that has accumulated based on fund performance up to the date of the financial statements. Unrealized carried interest is determined as if the fund was wound up at the reporting date, based on the estimated value of the underlying investments.

The following table disaggregates our asset management FFO into fee related earnings, realized carried interest and realized disposition gains to facilitate analysis. We have provided additional detail, where referenced, to explain significant movements from the prior period.

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	Ref.	2016	2015
Funds from operations			
Fee related earnings.....	i	\$ 712	\$ 496
Realized carried interest.....	ii	149	32
Realized disposition gains.....		5	—
		<u>\$ 866</u>	<u>\$ 528</u>

i. Fee Related Earnings

The following table further disaggregates fee related earnings in order to further facilitate analysis of this component of our segment FFO:

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2016	2015
Fee revenues		
Base management fees.....	\$ 1,005	\$ 780
Incentive distributions.....	104	72
Performance fees.....	—	2
Transaction and advisory fees ¹	33	18
	<u>1,142</u>	<u>872</u>
Direct costs and other ¹	(430)	(376)
Fee related earnings.....	<u>\$ 712</u>	<u>\$ 496</u>

1. Transaction and advisory fees and direct costs for 2016 and 2015 have been restated to advisory fee earnings derived from business activities that are owned by BBU and reported within our Private Equity segment

Fee related earnings increased by 44% to \$712 million for the year, primarily as a result of the higher level of fee bearing capital which gave rise to higher base management fees. Operating margins, which are calculated as fee related earnings divided by fee revenues, were 62% for the year, compared to 57% in 2015, as we previously invested in our operations to enable us to expand our fee bearing capital. Margins also benefitted from certain transaction fees and catch up fees received during the year that had no associated costs.

Base management fees increased 29% to \$1.0 billion for the year compared to \$780 million in 2015. Our private funds contributed \$495 million of base fees representing a 60% increase from the prior year. The increase in private fund base fees was due to higher levels of fee bearing capital as a result of private fund capital raised in the last 12 months. Base management fees from our listed partnerships totalled \$418 million, and included \$388 million of base management fees from BPY, BIP, and BEP, an increase of \$58 million from the prior year as a result of higher capitalization levels, and base management fees from BBU, which contributed \$12 million of fees after completing the spin-off on June 20, 2016.

We received \$104 million of incentive distributions from BIP, BEP and BPY, representing a 44% increase from 2015. The growth represents our share as manager of increases in unit distributions by BIP, BEP and BPY of 11%, 7% and 6%, respectively, as well as the impact of equity issued by BIP and BEP. Both BIP and BEP's distributions have surpassed both of their incentive distribution hurdles and, accordingly, we receive 25% of future distribution increases by those entities. BPY pays incentive distributions of 15% as its current annual distribution of \$1.18 per unit surpasses the first distribution hurdle of \$1.10 per unit on an annualized basis.

Transaction and advisory fees for the year include \$21 million (2015 – \$18 million) of fees earned on co-investment transactions and a \$12 million transaction fee.

Direct costs and other consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by 14% year over year due to expansion of our operations following the aforementioned growth in fee bearing capital that we manage.

ii. Realized Carried Interest

We realized the following carried interest during the years ended December 31, 2016 and 2015, which was included in segment FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Realized carried interest revenue.....	\$ 178	\$ 49
Direct costs	(29)	(17)
Realized carried interest	<u>\$ 149</u>	<u>\$ 32</u>

We realized \$178 million of carried interest during the year (2015 – \$49 million), or \$149 million (2015 – \$32 million) net of directly related costs, as a result of dispositions in private equity and property funds that are approaching the end of the fund life, which sufficiently reduced the risk of any clawback of these amounts.

Favourable investment performance in our private funds generated \$418 million of unrealized carried interest during the year of 2016, compared with \$219 million in the prior year. Of this generated carried interest, \$45 million was the impact of the overall appreciation of foreign currencies or non-U.S. dollar fund investments. Accumulated unrealized carried interest totalled \$898 million at December 31, 2016. We estimate that approximately \$322 million of associated costs will arise on the realization of the amounts accumulated to date, of which \$128 million relates to the carried interest generated in the period. The amounts of unrealized carried interest and associated costs are shown in the following table:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016			2015		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
Unrealized balance, beginning of year	\$ 658	\$ (223)	\$ 435	\$ 488	\$ (174)	\$ 314
In-period change						
Generated	418	(128)	290	219	(66)	153
Less: realized	(178)	29	(149)	(49)	17	(32)
Unrealized balance, end of year	<u>\$ 898</u>	<u>\$ (322)</u>	<u>\$ 576</u>	<u>\$ 658</u>	<u>\$ (223)</u>	<u>\$ 435</u>

The funds that comprise the current unrealized carried interest have a weighted-average term to realization of six years. Recognition of carried interest is dependent on future investment performance.

Fee Bearing Capital

The following table summarizes our fee bearing capital:

AS AT DEC. 31 (MILLIONS)	Listed Partnerships ¹	Private Funds ^{1,2}	Public Securities	Total 2016	Total 2015 ²
Property	\$ 21,895	\$ 22,694	\$ —	\$ 44,589	\$ 40,366
Renewable power	11,796	6,894	—	18,690	11,743
Infrastructure	13,642	15,267	—	28,909	19,428
Private equity	2,042	4,769	—	6,811	5,928
Other	—	—	10,577	10,577	16,797
December 31, 2016	\$ 49,375	\$ 49,624	\$ 10,577	\$ 109,576	n/a
December 31, 2015	\$ 43,017	\$ 34,448	\$ 16,797	n/a	\$ 94,262

1. Includes Brookfield capital of \$22.0 billion (2015 – \$18.2 billion) in listed partnerships and \$0.3 billion (2015 – \$1.9 billion) in private funds

2. The private fund fee bearing capital for 2015 has been restated to eliminate \$4.7 billion of capital invested by BPY in our private funds which was subject to a fee credit arrangement

Listed partnership fee bearing capital includes the total market capitalization of our listed issuers and also includes corporate debt and preferred shares, net of cash, issued by these entities at the partnership level to the extent these are included in determining base management fees.

In 2016, we closed approximately \$20 billion of third-party private fund commitments including our flagship funds in property, infrastructure and private equity strategies, which were in aggregate more than double the size of the predecessor funds. Private fund capital includes \$20 billion of third-party uninvested capital, which is available to deploy within each fund's specific mandate. The uninvested capital includes \$8 billion for property funds, \$10 billion for infrastructure and renewable power funds and \$2 billion for private equity funds, and has an average term of approximately four years during which the capital can be invested. Fee bearing capital has a remaining average term of eight years (plus two one-year extension options on average) and includes approximately \$6 billion of co-investment capital.

Fee bearing capital increased by \$19.7 billion during the year of 2016. The principal changes are set out in the following table:

FOR THE YEAR ENDED DEC. 31, 2016 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total
Balance, December 31, 2015	\$ 43,017	\$ 34,448	\$ 16,797	\$ 94,262
Inflows	2,207	19,472	1,959	23,638
Outflows	—	(2,370)	(4,846)	(7,216)
Launch of BBU	2,300	(1,805)	—	495
Distributions	(2,090)	—	—	(2,090)
Market activity	4,517	—	1,090	5,607
Other	(576)	(121)	—	(697)
Total Change	6,358	15,176	(1,797)	19,737
Sale of fixed income business	—	—	(4,423)	(4,423)
Balance, December 31, 2016	\$ 49,375	\$ 49,624	\$ 10,577	\$ 109,576

Fee bearing capital increased by \$19.7 billion during the year, primarily as a result of new private fund capital, which closed \$19.5 billion of new third-party commitments. We also recorded higher capitalizations across our listed partnerships due to market value increases and the issuance of corporate debt and equity at the partnership level.

We completed the formation and spin-off of BBU during the year, resulting in the addition of \$2.3 billion listed partnership fee bearing capital and a \$1.8 billion decrease in private fund capital. The decrease in private fund capital is because the company's investment in our private equity funds were transferred to BBU, and we now earn fees on BBU's capital instead.

Listed partnership inflows of \$2.2 billion includes equity issued by BIP, BEP and BBU during the year. Market prices in our listed partnerships improved, resulting in a \$4.5 billion aggregate increase in the capitalization values. Increases were partially offset by \$2.1 billion of distributions to unitholders during the year and increased cash on hand at period end.

Private fund inflows of \$19.5 billion include \$13.7 billion in our three flagship funds, \$2.0 billion in our credit funds, \$2.8 billion of co-investment capital and \$1 billion in our first open-ended real estate fund. These were partially offset by the decrease in fee

bearing capital from the launch of BBU and outflows of \$2.4 billion as a result of disposition activities and the expiry of commitments.

Public securities inflows of \$2.0 billion and market appreciation of \$1.1 billion in the year were more than offset by \$4.8 billion of redemptions across several fund strategies, in particular related to sub-advisory mandates. We also disposed of a low margin securitized credit business which resulted in a \$4.4 billion decrease in fee bearing capital and generated a \$5 million realized disposition gain.

Outlook and Growth Initiatives

Following the fundraising of our latest series of flagship funds in 2016, we are focused on the deployment of this capital. Successful deployment of this capital will position us to launch successor funds over the coming years and to earn carried interest in the future. Our private fund client base continues to grow, increasing by 33% to 455 in 2016, and we look to develop and create new products to meet the demand from current and potential clients. We launched our first open-ended fund and broadened our credit fund offerings this year and, going forward, will look to raise additional capital within these strategies and expand these types of product offerings. Finally, we will continue to expand our listed partnerships by executing on their growth plans and deploying capital accretively, leading to capital appreciation and distribution growth, which will help increase fee bearing capital and incentive distributions.

PROPERTY

Overview

We own virtually all of our commercial property assets through our 62% economic ownership interest in BPY, which is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of \$17.9 billion at December 31, 2016, based on public pricing. BPY owns property assets directly as well as through private funds that we manage. We also own \$1.3 billion of preferred shares of BPY which yield 6.3% based on their redemption value.

BPY's operations are principally organized as follows:

Core office properties: We own interests in and operate commercial office portfolios, consisting of 142 properties totalling 99 million square feet of office space. The properties are located primarily in the world's leading commercial markets, such as New York, London, Los Angeles, Washington, D.C., Sydney, Toronto and Berlin. We also develop office properties on a selective basis; active development projects consist of interests in 37 sites including totalling 11 million square feet.

Core retail properties: Our core retail portfolio consists of interests in 127 regional malls and urban retail properties totalling 125 million square feet in the United States, which are held through our 34% fully diluted equity accounted interest in GGP. Our retail mall portfolio has a redevelopment pipeline that exceeds \$300 million of development cost on a proportionate basis.

Opportunistic: We own and operate a global portfolio of property investments which are targeted to achieve higher returns than our core office and retail portfolios. Our opportunistic portfolio consists of high quality assets with operational upside across the office, retail, multifamily, industrial, hospitality, triple net lease, self-storage and student housing sectors.

The following table disaggregates segment FFO and common 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. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Funds from Operations		Common Equity by Segment	
		2016	2015	2016	2015
Brookfield Property Partners					
Equity units ¹	i	\$ 635	\$ 534	\$ 15,371	\$ 14,888
Preferred shares		76	76	1,265	1,275
		711	610	16,636	16,163
Other investments		27	(8)	91	102
Realized disposition gains.....	ii	823	785	—	—
		\$ 1,561	\$ 1,387	\$ 16,727	\$ 16,265

1. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 50.3 million Class A limited partnership units, 4.8 million special limited partnership units and 0.1 million general partnership units; together representing an effective economic interest of 62% of BPY

i. Brookfield Property Partners

The following table disaggregates BPY's FFO by business line to facilitate further analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Core office	\$ 630	\$ 612
Core retail	459	452
Opportunistic	341	245
Corporate	(463)	(470)
Attributable to BPY unitholders	967	839
Non-controlling interests	(304)	(271)
Segment reallocation and other	(28)	(34)
Brookfield's interest	<u>\$ 635</u>	<u>\$ 534</u>

BPY's FFO for 2016 was \$967 million, of which our share was \$635 million.

Core office FFO increased by \$18 million to \$630 million. Same-property FFO growth of 6.6% was primarily derived from lease commencements at Brookfield Place New York and other leasing activities throughout the portfolio. This year's results also included FFO of \$44 million from the recognition of a previously deferred development fee which was earned during the year. These positive variances were partially offset by the absence of FFO from recently sold assets as well as the negative impact of foreign exchange, particularly related to FFO earned in British pounds.

We completed 5.6 million square feet of new and renewal leases during the year at an average in-place net rent of \$33.82 per square foot ("psf"), 16% higher than expiring net rents of \$29.24 psf. This resulted in a 4.3% increase in average overall in-place net rents to \$33.03 psf compared to \$31.67 psf at prior year end, including the impact of currency revaluation. Overall occupancy was 92.3% consistent with the prior year. Our overall in-place net rents are currently 15% below market net rents.

We currently have 10.9 million square feet of active development projects, including Manhattan West in New York, Brookfield Place in Calgary, as well as London Wall Place, Principal Place and 1 Bank Street in London and ICD Brookfield Place in Dubai. These office assets are 58% pre-leased in aggregate and we estimate an additional cost of \$3.1 billion (at share) to complete construction.

BPY's core retail FFO, which is derived from its ownership interest in GGP, remained relatively consistent as a 5% increase in same-property FFO was offset by the absence of FFO from assets sold. Our same-property retail portfolio occupancy rate was 96.5% as at December 31, 2016, a decrease of 30 bps from December 31, 2015. Lease commencements on a same-property basis increased in-place rents to \$62.12 psf at December 31, 2016 from \$60.92 psf at December 31, 2015. Average lease spreads on signed leases commencing in 2016 and 2017 were 10% and 20% higher, respectively, than existing leases on a suite-to-suite basis.

BPY's opportunistic assets are held primarily through private funds that are managed by us. BPY's share of the FFO from these assets increased \$341 million from \$245 million in the prior year. The increase of FFO is primarily attributable to capital deployed in the year, including the acquisitions of our self-storage operations, a student housing portfolio, and a U.S. multifamily business. The completion and sale of multifamily merchant development projects also contributed \$31 million of FFO in the year.

BPY's corporate expenses include interest expense, management fees paid and other costs. Corporate expenses decreased by \$7 million to \$463 million, as a result of lower management fees and lower interest expense, following the repayment of the BPO acquisition facility and subsidiary borrowings with proceeds from assets sales, partially offset by temporary drawdowns of credit facilities to fund investments.

ii. Realized Disposition Gains

Realized disposition gains in the current year include \$401 million of gains related to the disposition of office buildings in Sydney, Vancouver and New York, a \$125 million gain related to partial sale of a shopping mall in Las Vegas, a \$73 million gain related to the sale of a hotel portfolio in Germany, \$59 million gain on the sale of a hospitality trademark and \$165 million of net gains on the sale of more than 130 other investments.

Common Equity by Segment

Our Property segment consists largely of investments in commercial property businesses, whose assets are comprised mostly of investment properties that are carried at fair value and revalued on a quarterly basis. Common equity in our Property segment

increased to \$16.7 billion (2015 – \$16.2 billion) primarily due to our share of BPY’s net income, which includes revaluation gains and a \$600 million (at share) deferred income tax recovery, partially offset by foreign currency revaluation and distributions paid.

Outlook and Growth Initiatives

Our property group remains focused on increasing the value of 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 core business, we have approximately \$6.1 billion of office developments underway and should continue to increase earnings for the next several years as these projects are completed. We also announced a proposal to acquire, through BPY, the remaining third-party interest in BOX, subject to approval from the BOX shareholders. This acquisition would allow us to fully integrate our North American offices operations and further simplify our structure.

In our core retail operations, we are focused on operating and developing high quality shopping centres as these destinations continue to provide an attractive physical location for retailers and continue to demonstrate meaningful outperformance, relative to lower tier malls, despite a changing retail landscape.

In our opportunistic operations, we will continue to acquire properties through our global opportunistic private funds as these generally produce higher returns relative to core strategies. These funds have a wide scope in terms of real estate asset classes and geographic reach. Funding for these transactions will continue to include proceeds from asset sales as part of our capital recycling program.

RENEWABLE POWER

Overview

We hold our renewable power operations primarily through a 61% economic ownership interest in BEP, which is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of \$8.9 billion at December 31, 2016, based on public pricing. BEP owns one of the world’s largest publicly traded renewable power portfolio diversified across 15 power markets in North America, Colombia, Brazil and Europe. During the second quarter of 2016, BEP issued 23 million limited partnership units, of which we acquired 11 million units, increasing our capital invested in BEP, and diluting our economic ownership interest from 63% to 61%.

BEP’s operations are principally organized as follows:

Hydroelectric: We own and operate 217 hydroelectric generating stations on 82 river systems in North America, Brazil and Colombia. Our hydroelectric operations have 8,451 MW of installed capacity and long-term average generation of 20,004 gigawatt hours (“GWh”) on a proportionate basis.

Wind energy: We own and operate 38 wind facilities in North America, Europe and Brazil. Our wind energy operations have 1,590 MW of installed capacity and long-term average generation of 2,630 GWh on a proportionate basis.

We arrange for the sale of North American power generated by BEP through our energy marketing business (“Brookfield Energy Marketing” or “BEMI”). We purchase a portion of BEP’s power pursuant to long-term contracts at predetermined prices, thereby increasing the stability of BEP’s revenue profile. We sell the power under long-term contracts as well as into the open market and also earn ancillary revenues, such as capacity fees and renewable power credits and premiums. This provides us with increased participation in future increases (or decreases) in power prices.

The following table disaggregates segment FFO and common equity into the amounts attributable to our ownership interest in BEP, the operations of BEMI and realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Funds from Operations		Common Equity by Segment	
		2016	2015	2016	2015
Brookfield Renewable Partners ¹	i	\$ 249	\$ 272	\$ 3,793	\$ 3,405
Brookfield Energy Marketing.....	ii	(69)	(64)	1,033	1,019
Realized disposition gains		—	25	—	—
		<u>\$ 180</u>	<u>\$ 233</u>	<u>\$ 4,826</u>	<u>\$ 4,424</u>

1. Brookfield’s interest in BEP consists of 129.7 million redemption-exchange units, 51.1 million Class A limited partnership units and 2.7 million general partnership units; together representing an economic interest of 61% of BEP

Realized disposition gains in the prior year included the disposition of two Brazilian hydroelectric facilities and the sale of a U.S. wind facility.

i. Brookfield Renewable Partners

The following table disaggregates BEP's generation and FFO by business line to facilitate further analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (GIGAWATT HOURS AND \$MILLIONS)	Actual Generation (GWh) ¹		Long-Term Average (GWh) ¹		Funds from Operations	
	2016	2015	2016	2015	2016	2015
Hydroelectric	17,663	14,931	20,004	16,445	\$ 511	\$ 526
Wind energy	2,258	2,238	2,630	2,553	98	113
Corporate and other	301	493	264	319	(190)	(172)
Attributable to BEP unitholders	20,222	17,662	22,898	19,317	419	467
Non-controlling interests and other ²					(170)	(195)
Brookfield's interest					\$ 249	\$ 272

1. Proportionate to Brookfield Renewable Partners

2. Includes incentive distributions paid to Brookfield of \$20 million (2015 – \$8 million) as the general partner of BEP. The prior year also includes a reallocation of \$18 million to disposition gains, net of NCI, related to the sale of a 102 MW wind facility in California and compensation for extinguished concession agreements relating to two Brazilian hydroelectric facilities

Generation for the year totalled 20,222 GWh, on a proportionate basis to BEP, 12% below the long-term average of 22,898 GWh and a 15% increase compared to the prior year.

Hydroelectric generation was 12% below the long-term average of 20,004 GWh and 18% higher than the prior year. The increase in generation contributed \$61 million of additional FFO. Recently acquired facilities in Colombia, Brazil and Pennsylvania contributed 2,913 GWh of generation, and better water conditions improved generation in Brazil. This was partially offset by lower generation in the U.S. northeast. Lower pricing across our portfolio decreased FFO by \$51 million. The 2015 results included \$27 million in settlement gains relating to concession agreements for two Brazilian facilities and the delayed completion of a hydroelectric facility.

Generation from the wind portfolio was 14% below the long-term average, and remained relatively consistent with the prior year. Generation in our North American wind operations were flat as increases in California were offset by lower generation in northern U.S. and eastern Canada. Lower wind conditions and pricing in Europe, which decreased results by \$8 million were partially offset by improved generation in Brazil. FFO in the previous year included a \$12 million gain on the sale of a 102 MW wind facility in California.

Corporate and other activities reduced FFO by \$190 million (2015 – \$172 million) and includes interest expense on corporate debentures, preferred share distributions as well as asset management fees paid. FFO from other activities includes the receipt of a \$20 million payment during the year for co-gen assets pertaining to historic power purchase agreements in Ontario, which partially offset these unallocated corporate costs and the increase in asset management fees paid.

ii. Brookfield Energy Marketing

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

BEMI incurred a FFO deficit of \$69 million during the year compared to a \$64 million FFO deficit in the prior year. BEMI purchased approximately 7,862 GWh of electricity from BEP during the year, compared with 7,468 GWh in 2015, at an average price of \$65 per megawatt hour ("MWh") compared with \$67 per MWh in 2015, and sold this power at an average price, including ancillary revenues, of \$57 per MWh compared with \$59 per MWh in 2015. The increase in volumes sold at a negative margin, resulted in a higher FFO deficit this year.

Approximately 2,751 GWh of power sales were pursuant to long-term contracts at an average price of \$76 per MWh (2015 – \$78 per MWh). The balance of approximately 5,111 GWh was sold in the short-term market at an average price of \$47 per MWh, including ancillary revenues (2015 – \$50 per MWh). Ancillary revenues, which include capacity payments, green credits and other additional revenues, totalled \$74 million, adding \$9 per MWh to average realized prices on short-term power sales in the current year as compared to \$12 per MWh in the prior year.

Common Equity by Segment

Common equity in our Renewable Power segment was \$4.8 billion at December 31, 2016 and increased from \$4.4 billion at December 31, 2015 primarily due to our purchase of 11 million BEP units during the second quarter in 2016 for \$313 million. The remaining increase is due to increased values of our portfolio, the contribution from earnings and the impact of foreign currency translation, partially offset by depreciation and amortization, and cash distributions received. Our invested capital is represented primarily by the PP&E deployed in our generation facilities. We record renewable power PP&E at fair value and revalue the assets annually at year end.

Outlook and Growth Initiatives

We completed several acquisition and development activities during the year, including a 3,032 MW hydroelectric portfolio in Colombia, which we estimate will contribute an additional \$30 million of FFO in 2017. Our development pipeline represents over 6,000 MW of potential capacity spread across all of our regions, of which 300 MW are currently under construction or in late stage development that we expect to contribute an incremental \$45 to \$50 million to BEP's FFO when commissioned. Subsequent to year end, we announced an agreement to acquire, subject to customary closing conditions, 100% of TerraForm Global and 51% of TerraForm Power, collectively representing a 3,600 MW global renewable power portfolio, including wind and solar assets. This acquisition provides a platform for investing in solar power, an attractive pipeline for growth moving forward and exposure to new markets for our operations.

We maintain a long-term view that electricity prices and the demand for electricity from renewable sources will rise due to a growing level of acceptance around climate change, the legislated requirements in some areas to diversify away from fossil fuel based generation because they are becoming increasingly cost competitive. BEP 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 16 years and represent 76% of our long-term average generation from North American operations over the next five years on a proportionate basis at an average price of \$68 to \$72 per MWh. To the extent that prices increase in the future, we will benefit from reselling this power in the open market.

INFRASTRUCTURE

Overview

Our infrastructure operations are held primarily through our 30% economic ownership interest in BIP, which is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of \$12 billion at December 31, 2016, based on public pricing. BIP owns infrastructure businesses directly as well as through private funds that we manage. We also have direct investments in sustainable resources operations.

BIP's operations are organized as follows:

Utilities: consist of regulated distribution, regulated terminal and electricity transmission operations. 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 predictable and typically not impacted to any great degree by short-term volume or price fluctuations.

Transport: 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: 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 France that provides essential services and critical infrastructure to the telecom and media broadcasting sectors, for which we are paid fees. This operation generates stable, inflation-linked cash flows underpinned by long-term contracts.

The following table disaggregates segment FFO and common equity into the amounts attributable to our economic ownership interest of BIP, directly held sustainable resources operations and realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Ref.	Funds from Operations		Common Equity by Segment	
		2016	2015	2016	2015
Brookfield Infrastructure Partners ¹	i	\$ 254	\$ 217	\$ 1,934	\$ 1,585
Sustainable resources		25	28	763	618
Realized disposition gains	ii	95	7	—	—
		<u>\$ 374</u>	<u>\$ 252</u>	<u>\$ 2,697</u>	<u>\$ 2,203</u>

1. Brookfield's interest in BIP consist of 108.4 million redemption-exchange units, 0.2 million limited partnership units and 1.6 million general partnership units together representing an economic interest of 30% of BIP

i. Brookfield Infrastructure Partners

The following table disaggregates BIP's FFO by business line to facilitate further analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Utilities	\$ 399	\$ 387
Transport	423	398
Energy	175	90
Communications infrastructure	77	60
Corporate and other	(130)	(127)
Attributable to BIP unitholders	944	808
Non-controlling interests and other ¹	(690)	(591)
Brookfield's interest	<u>\$ 254</u>	<u>\$ 217</u>

1. Includes incentive distributions paid to Brookfield of \$80 million (2015 – \$66 million) as the general partner of BIP

BIP recorded \$944 million of FFO in the year of 2016, a 17% increase from the prior year, benefitting from an increased ownership in a North American gas transmission operations and Brazilian toll roads, the contribution from new investments and internally generated growth across the business, as FFO increased by 10% on a same-store, constant currency basis.

FFO from our utilities operations increased by \$12 million over the prior year to \$399 million. FFO benefitted from additional connections activity and the contribution from smart meters in our U.K. operations, as well as inflation indexation and capital commissioned into rate base across the portfolio. This was partially offset by foreign exchange, a lower regulated return from our Australian operations in the second half of the year and the absence of FFO from two North American operations that were sold.

Transport FFO increased by \$25 million to \$423 million primarily driven by higher tariffs and volumes across a number of operations, as well as contributions from investments, including recently acquired toll roads in India and Peru and a ports business in Australia. These positive factors were partially offset by foreign exchange, and decreased volumes at our Brazilian rail operations.

FFO from our energy operations increased by \$85 million to \$175 million due primarily to strong volumes combined with lower interest expense and increased ownership in our North American natural gas transmission business and contributions from our recently acquired North American gas storage operations.

Our communications infrastructure FFO increased by \$17 million to \$77 million due to a full year contribution from our European acquisition completed at the end of the first quarter of 2015. This was partially offset by an expected increase in interest expense as a result of refinancing of short-term debt with long-term borrowings during the first half of the year.

Corporate and other FFO was a deficit of \$130 million compared to a deficit of \$127 million in the prior year due to higher base management fees from increased market capitalization and increased borrowings used to fund new investments, partially offset by higher investment income due to higher return on financial assets.

ii. Realized Disposition Gains

Realized disposition gains in the current year include a \$32 million gain on the sale of a Canadian utilities business, \$43 million on the sale of a European gas distribution business and a \$20 million realized disposition gain (our proportionate share) on the disposition of our toehold position in our Australian ports business during the year.

Common Equity by Segment

Common equity in our Infrastructure segment was \$2.7 billion at December 31, 2016 (2015 – \$2.2 billion) and primarily represents our net investment in infrastructure PP&E, as well as certain concessions. Infrastructure PP&E, which represents the majority of assets in the segment, are recorded at fair value and revalued annually. 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. Segment common equity increased from December 31, 2015, as the contribution from earnings, positive PP&E revaluation and positive currency revaluation were partially offset by distributions paid to us.

Outlook and Growth Initiatives

In the utilities operations, we expect to close the acquisition of the previously announced Brazilian gas transmission system in the first half of 2017 and earn a return on incremental investments in our existing business that is consistent with our current return on rate base. As at December 31, 2016 we have \$1 billion of total capital to be commissioned into our rate base over the next two to three years.

Within our transport businesses we intend to increase our investments in assets such as rail, ports and toll roads, as we see attractive valuations. As at December 31, 2016 capital to be commissioned of \$1.1 billion consists of expansion and upgrades to our Brazilian rail business and projects to add additional capacity to our toll roads and ports. We also expect growth in the use of our systems by our customers as we meet demand by expanding the capacity of our systems.

In our energy operations, 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. We continue to invest in our North American natural gas infrastructure in order to adapt to shifts in supply and demand dynamics and in order to capture future increases in prices and spreads.

Within our communications infrastructure business our objective is to benefit from the increased coverage requirements by mobile network operators and to acquire towers and other infrastructure that are not core to such operators. We have reached agreement to invest more than \$650 million to acquire a portfolio of 40,000 telecommunication towers in India, which represents approximately 10% of the country's towers.

PRIVATE EQUITY

Our private equity operations are held primarily through our 75% interest in BBU. We distributed a 21% limited partnership interest in BBU as a special dividend to shareholders on June 20, 2016. The value of the dividend, based on IFRS values, was \$441 million or \$0.45 per common share. BBU is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of \$2.6 billion at December 31, 2016. During the fourth quarter of 2016, BBU issued 16 million limited partnership units, of which we acquired 8 million units, increasing our capital invested in BBU, and diluting our economic ownership interest from 79% to 75%. We also own certain businesses directly, including a 41% interest in Norbord Inc., which is one of the world's largest producers of oriented strand board ("OSB").

BBU's operations are principally organized as follows:

Construction services: We provide contracting services with a focus on high quality construction of large-scale and complex landmark buildings and social infrastructure. Construction projects are generally delivered through contracts whereby we take responsibility for design, program, procurement and construction at a defined price.

Other business services: Our business services operations consist primarily of commercial and residential real estate services and facilities management for corporate and government clients. These services are typically provided under medium to long-term contracts. Services activity is seasonal in nature and is affected by the general level of economic activity and related volume of services purchased by our clients.

Energy: Our energy operations are primarily comprised of oil and gas exploration and production, principally through an offshore oil and gas business in Western Australia and coal-bed methane operations in central Alberta, Canada. Our energy business also includes energy-related service operations in Canada.

Other industrial operations: Our industrial operations consist primarily of manufacturing and mining activities, which are made up of capital intensive businesses with significant barriers to entry and requires technical expertise to build and operate profitably. Our manufacturing activities include a leading manufacturer of graphite electrodes and a comprehensive range of infrastructure products and engineered construction solutions. Our mining activities include interests in specialty metal and aggregates mining operations in Canada.

The following table disaggregates segment FFO and common equity into the amounts attributable to the capital we have invested in BBU, Norbord, and other investments as well as realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Notes	Funds from Operations		Common Equity by Segment	
		2016	2015	2016	2015
Brookfield Business Partners ¹	i	\$ 177	\$ 240	\$ 1,865	\$ 1,787
Norbord.....	ii	133	21	276	224
Other investments		95	48	721	167
Realized disposition gains		—	25	—	—
		<u>\$ 405</u>	<u>\$ 334</u>	<u>\$ 2,862</u>	<u>\$ 2,178</u>

1. Prior period figures for assets that are included in BBU have been reclassified to reflect current presentation

i. Brookfield Business Partners

The following table disaggregates BBU's FFO by business line to facilitate further analysis of the year-over-year variances in segment FFO:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Construction.....	\$ 94	\$ 105
Other business services.....	54	43
Energy.....	63	69
Other industrial operations	6	14
Corporate and other	(17)	—
Attributable to BBU unitholders.....	200	231
Non-controlling interests	(23)	—
Segment reallocation and other	—	9
Brookfield's interest	<u>\$ 177</u>	<u>\$ 240</u>

BBU generated \$200 million of FFO, representing a \$31 million decrease from the prior period primarily due to corporate expenses incurred on its formation as a publicly traded partnership on June 20, 2016. Corporate expenses also include base management fees and other administrative costs that were previously incurred by BAM.

Construction services FFO decreased by \$11 million to \$94 million as the prior year included incremental earnings upon finalization of a large project in the U.K. in addition to the impact of a weaker British pound on U.K. earnings throughout 2016. We also experienced lower margins on an Australian contract. These effects were partially offset by a positive contribution from a larger level of work performed throughout the year compared to the prior year. Our backlog now stands at \$7.3 billion across 106 projects, representing nearly two years of activity.

FFO from other business services increased by \$11 million due to reduced costs at our real estate services business. In addition, FFO benefitted from a tuck-in acquisition closed in our facilities management business in the third quarter of 2016.

Our energy operations experienced a \$6 million reduction in FFO as a result of weak commodity pricing in the first half of the year that affected our Canadian operations. This decrease was partially offset by a gain of \$8 million on the disposition of investment securities and increased contribution from our Western Australian equity accounted operation as a result of hedging its oil exposure which significantly insulated it from commodity price volatility in 2016.

FFO from our other industrial investments decreased by \$8 million due primarily to lower FFO contributions from our graphite electrode manufacturing operation. This decrease was partially offset by a realized gain of \$9 million in relation to the sale of a short-term securities investment as well as increased margins at our bath and shower manufacturing business.

ii. Norbord

Our share of Norbord's FFO increased by \$112 million to \$133 million as North American benchmark OSB prices have increased from this time last year as U.S. housing starts, particularly for single-family homes, continue to recover and are increasing OSB demand, a key product used in the residential construction industry. Average North American OSB prices increased by 33% to \$245 per thousand square feet ("Msf") compared to an average pricing of \$184 per Msf in 2015. FFO also benefitted from a 7% increase in North American yearly volumes from 5.5 billion square feet to 5.9 billion square feet.

Common Equity by Segment

Common equity in our Private Equity segment increased by \$684 million from December 31, 2015 to \$2.9 billion due to \$926 million additional capital invested in these operations during the year. This was partially offset by the \$441 million distribution to shareholders of a 21% interest in BBU. Most of the assets held in the private equity operations are recorded at amortized cost, with depreciation recorded on a quarterly basis.

Outlook and Growth Initiatives

BBU completed its first year as a publicly listed partnership following its spin-off in June 2016 and continues to make progress across its operations through a number of strategic initiatives. In the construction services business, the focus continues to be on key clients who are looking to build high quality residential, office, retail, and hotel projects. Within the business services segment, we are executing our strategy to expand the global footprint and scale of the facilities management operations to increase efficiency and value. In the energy segment, ongoing exploration and development initiatives are underway to enhance base production and solidify future growth within Canada and Australia. In the industrials segment, we are focused on making continued operational improvements to further reduce costs and increase efficiency.

BBU continues to pursue new opportunities and monetize businesses where capital can be redeployed into higher returning opportunities. In partnership with our institutional partners, BBU entered into a definitive agreement to acquire a 70% controlling stake in Odebrecht Ambiental ("OA"), Brazil's largest private water distribution, collection, and treatment company, and an 85% controlling stake in Greenergy Fuels Holdings Ltd ("Greenergy"), a leading U.K.-based road fuels distributor. Given these businesses' operational footprints and technical capabilities, we believe this acquisition will enable us to generate strong and stable long-term returns in the future. Subsequent to year end, we sold our bath and shower manufacturing business ("Maax"), which we acquired just prior to the U.S. housing and credit crisis and owned in a very challenging environment given the length and severity of the crisis. We were able to manage the ensuing challenges by applying our operating expertise to drive improved performance at Maax, culminating into a sale, which generated a strong multiple on our invested capital.

RESIDENTIAL DEVELOPMENT

Our residential development businesses operate predominately in North America and Brazil.

Our North American business is conducted through Brookfield Residential Properties Inc., and is active in 10 principal markets in Canada and the U.S., and controls approximately 100,000 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 business includes land acquisition and development, construction, sales and marketing of a broad range of "for sale" residential and commercial office units, with a primary focus on middle income residential units in Brazil's largest markets, primarily São Paulo and Rio de Janeiro.

The following table disaggregates segment FFO and common equity into the amounts attributable to our two principal operating regions:

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Funds from Operations		Common Equity by Segment	
	2016	2015	2016	2015
Residential				
North America	\$ 160	\$ 171	\$ 1,441	\$ 1,318
Brazil and other	(97)	(36)	1,238	903
	<u>\$ 63</u>	<u>\$ 135</u>	<u>\$ 2,679</u>	<u>\$ 2,221</u>

FFO from our North American operations decreased by \$11 million primarily due to a decrease of \$31 million in land gross margins arising from a shift in the mix of lots sold as well as an overall decrease in the number of lot closings as we continue to be affected by the impact of depressed energy prices in western Canada. This was partially offset by an increase in housing gross margins by \$44 million as a result of 537 additional home closings, as eastern Canada and various U.S. markets have benefitted from strong

market conditions. Furthermore, the average home selling prices in Canada increased by 12% from \$328,000 to \$368,000 due to a larger proportion of higher priced homes closed throughout Ontario and in Calgary, where we have benefitted from increased average selling prices attributable to homes built by our luxury home builder that we had acquired in the fourth quarter of 2015. As at December 31, 2016, we have 29 (2015 – 31) active land communities and 85 (2015 – 68) active housing communities.

Our Brazilian operations delivered 41 projects during the year in comparison to 25 in 2015. Although deliveries were higher in the current year, FFO was a loss of \$97 million in the current year compared to a loss of \$36 million in the prior year. This was due to increased costs on certain projects and decreased pricing as a result of the weak economic environment in Brazil and its impact on the residential market. We currently have 26 projects under development as compared to 63 at the start of 2016 and 101 at the start of 2015, as we have been focused on delivering our current inventory over the two past years.

Common Equity by Segment

Common equity in our residential development segment was \$2.7 billion at December 31, 2016 (2015 – \$2.2 billion) and consists largely of residential development inventory. We invested \$281 million in our Brazilian operations during the year. In Brazil, the investment was used to repay high cost debt, lowering leverage and associated interest expense. 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.

Outlook and Growth Initiatives

We believe our North American activities will continue to perform well due to the improving market conditions in several regions in which we operate. In Canada, we will continue to benefit from improved market conditions in eastern Canada, however, the impact of low commodity prices on our energy driven housing markets may have some offsetting impacts. Net new home orders increased 17% to 3,394 units in 2016, which increased the units and value of our backlog units by 15% and 37%, respectively, over the prior year, with much of the increase occurring within our U.S. operations where prices and product mix are contributing to higher margins. At the end of 2016, the North American backlog stood at 1,541 homes sold but not delivered, with a sales value of \$783 million, compared to 1,340 homes with a value of \$573 million at the same time last year.

Brazil is currently experiencing lower growth, which is having a negative impact on current returns. Although the market in Brazil remains challenging, consumer confidence levels are now rising, enhancing the value of our business and our ability to generate stronger results over time. Evidence of this confidence is seen through our recent launch of new products, after two years of not launching products into the market. We are continuing to restructure the company's operations and refocus the company on higher margin projects in select key markets.

CORPORATE ACTIVITIES

Our corporate activities primarily consist of allocating capital to our operating business groups, principally through our listed partnerships (BPY, BEP, BIP and BBU) and directly held investments, as well as funding this capital through the issuance of corporate borrowings and preferred shares. We also hold cash and financial assets as part of our liquidity management operations and enter into financial contracts to manage our foreign currency and interest rate risks.

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

AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS)	Funds from Operations		Common Equity by Segment	
	2016	2015	2016	2015
Cash and financial assets, net.....	\$ 151	\$ 30	\$ 1,207	\$ 1,018
Corporate borrowings.....	(241)	(224)	(4,500)	(3,936)
Preferred equity ¹	—	—	(3,954)	(3,739)
Corporate costs and taxes/net working capital.....	(122)	(116)	(373)	606
	<u>\$ (212)</u>	<u>\$ (310)</u>	<u>\$ (7,620)</u>	<u>\$ (6,051)</u>

1. FFO excludes preferred share distributions of \$133 million (2015 – \$134 million)

Our portfolio of cash and financial assets is generally recorded at fair value with changes recognized quarterly through net income, unless the underlying financial investments are classified as available-for-sale securities, in which case changes in value are recognized in other comprehensive income. Loans and receivables are typically carried at amortized cost. Our financial assets consist of \$1.4 billion of cash and other financial assets (2015 – \$1.3 billion), which are partially offset by \$190 million (2015 – \$280 million) of deposits and other liabilities.

FFO from these activities includes dividends and interests from our financial assets, mark-to-market gains or losses on our financial asset portfolio and realized disposition gains or losses. FFO from our cash and financial asset portfolio was \$151 million in the current year, reflecting favourable market performance.

Corporate borrowings are generally issued with fixed interest rates and held at amortized cost. Many of these borrowings are denominated in Canadian dollars and therefore the carrying value fluctuates with changes in the exchange rate. A number of these borrowings have been designated as hedges of our Canadian dollar net investments within our other segments, resulting in the majority of the currency revaluation being recognized in other comprehensive income. Preferred equity does not revalue under IFRS. The FFO deficit from our corporate borrowings reflects the interest expense on those borrowings, which increased from the prior year as a result of corporate debt issuances during the year.

We describe cash and financial assets, corporate borrowings and preferred equity in more detail within Part 4 – Capitalization and Liquidity.

Common equity in our Corporate segment decreased by \$1.6 billion to a deficit of \$7.6 billion (2015 – \$6.1 billion). The decrease is attributable to additional corporate borrowing from the \$872 million issuance of corporate notes during the year, partially offset by repayment and weakening of Canadian dollars, as well as a repayment of a \$632 million loan receivable from BPY that was part of the net working capital as of the prior year end. Net working capital also includes corporate accounts receivable, accounts payable, other assets and liabilities. These items are partly offset by net deferred income tax assets of \$648 million (2015 – \$729 million). FFO includes corporate costs and cash taxes, which increased over the prior year due to a higher level of cash taxes in the current quarter.

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 or business group is intended to limit the impact of weak performance by one asset or business group and 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 consolidated 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 consolidated corporate (i.e. deconsolidated), and proportionately consolidated basis:

AS AT DEC. 31 (MILLIONS)	Consolidated ¹		Corporate		Proportionate ¹	
	2016	2015	2016	2015	2016	2015
Corporate borrowings	\$ 4,500	\$ 3,936	\$ 4,500	\$ 3,936	\$ 4,500	\$ 3,936
Non-recourse borrowings						
Property-specific mortgages	52,502	46,474	—	—	26,421	26,730
Subsidiary borrowings	7,949	8,303	—	—	5,231	5,303
	64,951	58,713	4,500	3,936	36,152	35,969
Accounts payable and other	11,982	11,433	1,901	1,726	7,726	7,537
Deferred tax liabilities	9,640	8,810	246	155	4,572	4,904
Subsidiary equity obligations	3,565	3,331	—	—	1,828	1,895
Equity						
Non-controlling interests	43,235	31,920	—	—	—	—
Preferred equity	3,954	3,739	3,954	3,739	3,954	3,739
Common equity	22,499	21,568	22,499	21,568	22,499	21,568
	69,688	57,227	26,453	25,307	26,453	25,307
Total capitalization	\$ 159,826	\$ 139,514	\$ 33,100	\$ 31,124	\$ 76,731	\$ 75,612

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 the debt of partially owned entities that are equity accounted, such as our investments in General Growth Properties and Canary Wharf and several of our infrastructure businesses.

Corporate Capitalization

Our corporate (deconsolidated) capitalization shows the amount of debt that has recourse to the Corporation. Common and preferred equity totals \$26.5 billion (2015 – \$25.3 billion) and represents approximately 80% of our corporate capitalization.

Corporate borrowings are further described on page 60.

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.

Consolidated to Proportionate Capitalization Reconciliation

Proportionate capitalization is a non-IFRS measure that presents our share of debt and other obligations based on our ownership of the related investments. We use this measure to enable analysis of our leverage levels relative to our common equity. This may differ from our consolidated leverage because of the varying ownership that we have in our consolidated and equity accounted investments.

The following table reconciles consolidated capitalization to proportionate capitalization:

AS AT DEC. 31 (MILLIONS)	2016	2015
Total consolidated capitalization.....	\$ 159,826	139,514
Add: proportionate share of debt of investments in associates	8,396	9,026
Less: liabilities attributable to non-controlling interests		
Non-recourse borrowings	(37,146)	(31,539)
Liabilities associated with assets held for sale	(49)	(231)
Accounts payable and other.....	(4,256)	(3,896)
Deferred tax liabilities	(5,068)	(3,906)
Subsidiary equity obligations	(1,737)	(1,436)
Non-controlling interests.....	(43,235)	(31,920)
Total proportionate capitalization.....	\$ 76,731	\$ 75,612

Corporate Borrowings

Corporate borrowings at December 31, 2016 included term debt of \$4.5 billion (2015 – \$3.8 billion), which increased as a result of issuances of C\$500 million and \$500 million during the year and a \$76 million impact of foreign exchange on Canadian dollar balances, partially offset by C\$300 million repayment during the year. We had no commercial paper and bank borrowings outstanding at December 31, 2016 (2015 – \$156 million). Commercial paper and bank borrowings are pursuant to, or backed by, \$1.9 billion of committed revolving term credit facilities of which \$1.5 billion have a five-year term, \$170 million have a four-year term and the remaining \$300 million have a three-year term. As at December 31, 2016, approximately \$61 million of the facilities were utilized for letters of credit (2015 – \$101 million).

Term debt consists of public bonds, all of which are fixed rate and have maturities ranging from April 2017 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 (2015 – eight years). The average interest rate on our corporate borrowings was 4.8% at December 31, 2016 (2015 – 5.0%).

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 DEC. 31 (\$ MILLIONS)	Average Term		Consolidated	
	2016	2015	2016	2015
Property	4	4	\$ 34,322	\$ 31,191
Renewable power.....	8	9	7,963	5,602
Infrastructure	9	9	7,901	6,325
Private equity and other	3	3	1,836	2,300
Residential development	1	2	420	626
Total.....	5	5	\$ 52,442	\$ 46,044

Property-specific borrowings increased by \$6.4 billion during 2016 due to \$5.2 billion of borrowings assumed on or issued in conjunction with acquisitions offset by repayment of amounts previously drawn on revolving or term bank facilities. The additional borrowings in our renewable power operations are primarily related to the acquisitions of hydroelectric facilities in Colombia and the U.S. The additional borrowings in our infrastructure operations are also primarily related to acquisitions, including the acquisitions of our Indian and Peruvian toll roads, North American gas storage operations and Australian ports business. Borrowings are generally denominated in the same currencies as the assets they finance and therefore the overall decrease in the value of the U.S. dollar during the period decreased the carrying value of our non-U.S. dollar borrowings.

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 financing costs equally among equity holders in partially owned subsidiaries.

AS AT DEC. 31 (\$ MILLIONS)	Average Term		Consolidated	
	2016	2015	2016	2015
Property	2	1	\$ 2,765	\$ 2,864
Renewable power	6	6	2,029	1,736
Infrastructure	3	4	1,002	1,491
Private equity and other	2	3	538	623
Residential development	6	7	1,615	1,589
Total	4	4	\$ 7,949	\$ 8,303

Subsidiary borrowings generally have no recourse to the Corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP and BBU). Subsidiary borrowings decreased by \$0.4 billion as our subsidiaries partially repaid their credit facilities used to fund investments and growth initiatives in the prior year, offset by the C\$500 million issuance in BEP during the third quarter of 2016.

Subsidiary Equity Obligations

The following table disaggregates subsidiary equity obligations by type:

AS AT DEC. 31 (MILLIONS)	2016	2015
Subsidiary preferred equity units	\$ 1,574	\$ 1,554
Limited life funds and redeemable fund units	1,439	1,274
Subsidiary preferred shares	552	503
	<u>\$ 3,565</u>	<u>\$ 3,331</u>

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 represents permanent non-participating equity that provides leverage to our common equity. The shares are categorized by their principal characteristics in the following table:

AS AT DEC. 31 (\$ MILLIONS)	Term	Average Rate		2016	2015
		2016	2015		
Fixed rate-reset	Perpetual	4.42%	4.63%	\$ 2,669	\$ 2,506
Fixed rate	Perpetual	4.82%	4.82%	753	753
Floating rate	Perpetual	1.97%	1.92%	532	480
Total		<u>4.17%</u>	<u>4.32%</u>	<u>\$ 3,954</u>	<u>\$ 3,739</u>

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 at December 31, 2016 was 282 basis points.

On November 18, 2016, the company issued 12.0 million Series 46 fixed rate-reset preferred shares with an initial dividend rate of 4.80% for gross proceeds of C\$300 million.

During the year we repurchased 258,487 of our fixed rate-reset preferred shares with a face value of \$6.4 million.

Non-controlling Interests

Non-controlling interests in our consolidated results consists primarily of public interests in BPY, BEP, BIP and BBU, and third-party interests in their consolidated operating entities as well as other participating interests in our consolidated listed and unlisted investments as follows:

AS AT DEC. 31 (MILLIONS)	2016	2015
Brookfield Property Partners	\$ 18,790	\$ 16,045
Brookfield Renewable Partners	8,879	5,358
Brookfield Infrastructure Partners	7,710	5,591
Brookfield Business Partners	2,173	—
Other participating interests	5,683	4,926
	<u>\$ 43,235</u>	<u>\$ 31,920</u>

The increase in non-controlling interests is the result of the spin-off of BBU which contributed \$2.2 billion as well as acquisitions made through private funds in the year, in particular the acquisition of a Colombian hydroelectric portfolio through a private fund and with co-investors, which contributed \$2.7 billion of the increase in non-controlling interests in BEP, as well as the acquisition of self-storage operations, a U.S. retail mall portfolio, and a portfolio of student housing in our opportunistic real estate funds, which are consolidated by BPY, and the acquisitions of our North American gas storage operations, a portion of our Australian port operations and toll roads that are consolidated by BIP.

Class A Shares

Issued and Outstanding Shares

Changes in the number of issued and outstanding Class A common shares (“Class A shares”) during the years are as follows:

FOR THE YEARS ENDED DEC. 31 (MILLIONS)	2016	2015
Outstanding, beginning of year	961.3	928.2
Issued (repurchased)		
Issuances	—	32.9
Repurchases	(4.7)	(11.5)
Long-term share ownership plans ¹	1.3	11.4
Dividend reinvestment plan and others	0.3	0.3
Outstanding, end of year	958.2	961.3
Unexercised options and other share-based plans ¹	43.8	42.0
Total diluted shares, end of year	<u>1,002.0</u>	<u>1,003.3</u>

1. Includes management share option plan and restricted stock plan

The company holds 27.8 million Class A shares (2015 – 26.3 million) purchased by consolidated entities in respect of long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Diluted shares outstanding include 4.2 million (December 31, 2015 – 3.7 million) shares issuable in respect of these plans based on the market value of the Class A shares at December 31, 2016 and 2015, resulting in a net reduction of 23.6 million (2015 – 22.6 million) diluted shares outstanding.

During 2016, 2,713,259 options were exercised, in which 2,290,097 were exercised on a net-settled basis, resulting in the cancellation of 1,662,086 vested options.

The cash value of unexercised options is \$901 million as at December 31, 2016 (2015 – \$828 million) based on the proceeds that would be received on exercise of the options.

As of March 30, 2017, the Corporation had outstanding 958,869,814 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 DEC. 31 (MILLIONS)	2016	2015
Net income attributable to shareholders	\$ 1,651	\$ 2,341
Preferred share dividends	(133)	(134)
Net income available to shareholders	<u>\$ 1,518</u>	<u>\$ 2,207</u>
Weighted-average shares	959.0	949.7
Dilutive effect of the conversion of options and escrowed shares using treasury stock method ¹	17.6	26.0
Shares and share equivalents	<u>976.6</u>	<u>975.7</u>

1. Includes management share option plan and escrowed stock plan

INTEREST RATE PROFILE

As at December 31, 2016, our net floating rate liability position on a proportionate basis was \$7.5 billion (2015 – \$5.2 billion). As a result, a 50 basis-point increase in interest rates would decrease FFO by \$37 million (2015 – \$26 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 FFO by \$26 million, based on our positions at December 31, 2016 (2015 – \$16 million).

We have continued to take 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 \$31 billion of debt and preferred share financings during the year throughout our portfolio (\$20 billion on a proportionate basis). These refinancing activities have enabled us to extend or maintain our average maturity term at favourable rates. Approximately \$9 billion of the asset-specific financings and the \$0.7 billion of preferred shares issued have fixed rate coupons.

As at December 31, 2016, we held a \$2.6 billion notional amount (2015 – \$3.2 billion) of interest rate contracts, \$1.7 billion on a proportionate basis (2015 – \$2.0 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 1.5% (2015 – 1.8%). The effective rate will be approximately 4.2% (2015 – 4.1%) at the time of issuance, which reflects the premium relating to the slope of the yield curve during this period. This represents approximately 31% of expected issuance into the North American and U.K. markets (2015 – 38%) at our share in the next three 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 \$129 million positive mark to market (2015 – \$137 million), of which \$85 million net to Brookfield (2015 – \$95 million) would be recorded in other comprehensive income.

LIQUIDITY

Overview

As an asset manager, most of our investment transactions and funding activities occur within our private funds and listed partnerships. We endeavour to 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 Corporation. Our share of capital commitments to private funds are generally funded by the associated listed partnership, based on the investment strategy of each fund. From time to time, we will invest additional capital in these listed partnerships through participation in equity issuances or alternatively may sell units on a secondary basis.

Core Liquidity

Our principal sources of short-term liquidity are cash and financial assets together with undrawn committed credit facilities at the corporate and listed partnership level, which we refer to collectively as core liquidity. We maintain cash and financial assets, as well as undrawn credit facilities, to fund capital transactions. Our credit facilities are with a diversified range of major banking institutions, typically have five year terms and we endeavour to renew and extend the term annually.

The following table presents our core liquidity on a corporate and consolidated basis:

	Corporate		Principal Subsidiaries		Total	
	2016	2015	2016	2015	2016	2015
AS AT DEC. 31 (MILLIONS)						
Cash and financial assets, net	\$ 1,207	\$ 1,018	\$ 1,385	\$ 428	\$ 2,592	\$ 1,446
Undrawn committed credit facilities	1,869	1,673	4,506	5,848	6,375	7,521
	<u>\$ 3,076</u>	<u>\$ 2,691</u>	<u>\$ 5,891</u>	<u>\$ 6,276</u>	<u>\$ 8,967</u>	<u>\$ 8,967</u>

As at December 31, 2016, core liquidity at the corporate level was \$3.1 billion, consisting of \$1.2 billion in cash and financial assets, net of deposits and other liabilities, and \$1.9 billion in undrawn credit facilities. Corporate level liquidity is readily available for use without any material tax consequences. We expect to fund corporate transactions and financial commitments with existing cash and financial asset balances and borrowing under corporate credit facilities as well as cash generated on an ongoing basis.

We also have the ability to raise additional liquidity through the issuance of securities and sale of holdings of listed investments in our principal subsidiaries and other holdings including from those listed in the table below on this page. However, this is not considered a core source of liquidity at the corporate level as we are generally able to finance our operations and capital requirements through other means.

Our primary sources of recurring cash flows at the corporate level are fee related earnings from our asset management activities and distributions from invested capital, in particular our listed partnerships. Recurring cash requirements at the corporate level include: ongoing corporate operating costs; interest payments on corporate borrowings; payments related to financial instruments such as interest rate and foreign currency contracts, to the extent that these are in a liability position; payments related to our energy marketing initiatives, when realized prices on power sales are less than the contracted price paid to BEP; and preferred and common share dividend payments declared by our Board of Directors.

Typical capital requirements for cash include debt principal repayments and preferred share redemptions, although we typically refinance these in advance of maturity; 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.

During 2016 we earned \$712 million of fee related earnings. We received \$1.1 billion in distributions from our listed subsidiaries during 2016 and have the ability to distribute surplus cash flow of controlled, privately held investments. In addition, income generated by our financial asset portfolio was \$151 million. Interest expense and preferred share distributions totalled \$241 million and \$133 million, respectively, and corporate operating expenses and cash taxes totalled \$122 million. We paid \$500 million in dividends on our common equity in 2016.

We hold much of the capital invested by the Corporation in the form of listed equity securities which provides 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 annual cash distributions based on current distribution policies for each entity, excluding our cash and financial asset portfolio:

AS AT DEC. 31, 2016 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Units	Distributions Per Unit ¹	Quoted Value ²	Distributions (Annual)
Brookfield Property Partners ³	68.8%	487.8	\$ 1.18	\$ 11,992	\$ 652
Brookfield Renewable Partners	61.3%	183.4	1.87	5,448	343
Brookfield Infrastructure Partners	29.6%	110.3	1.74	3,690	192
Brookfield Business Partners	74.9%	80.9	0.28	1,946	20
Norbord	40.8%	35.0	0.30	884	11
Acadian Timber Corp.	44.9%	7.5	0.74	100	6
				<u>\$ 24,060</u>	<u>\$ 1,224</u>

1. Based on current distribution policies as announced in February 2017

2. Quoted value using December 31, 2016 public pricing

3. Quoted value includes \$1,265 million of preferred shares and distributions includes \$76 million of preferred distributions. Fully diluted ownership is 62%, assuming conversion of convertible preferred shares held by a third party

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.

The formation and spin-off of BBU has resulted in us providing a \$500 million acquisition and liquidity facility to BBU to assist in its liquidity requirements in the short term, which has not been drawn. Subsequently, BBU obtained a \$150 million credit facility from external lenders that is non-recourse to the Corporation. BBU now funds the commitments to our private equity private funds, which will decrease the liquidity requirements on the Corporation over time as BBU becomes self-financing.

Consolidated core liquidity includes the core liquidity of our principal subsidiaries, which consist of BPY, BEP, BIP, and BBU, and was \$9.0 billion at the end of the period. This liquidity is available to fund ongoing investments in their respective areas of expertise and, accordingly, we include the resources of these entities in assessing our overall liquidity. Our principal subsidiaries are publicly listed limited partnerships that are able to repatriate cash to unitholders, including the Corporation, without the imposition of material tax consequences on the partnerships themselves. As a unitholder, we receive distributions from these subsidiaries, which are not taxable to us. We recognize income taxes based on our share of the partnerships' taxable income and we record this as part of our tax expense.

Capital Requirements and Commitments

On a consolidated basis, our two largest normal course capital requirements are the funding of acquisitions and debt maturities. 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.

As noted above, 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 our 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.

Our commitments to provide capital to the private funds that we manage are similar to the commitments that our clients make. In the case of our property, infrastructure and private equity funds, these commitments are expected to be funded by our listed partnerships, specifically BPY, BEP, BIP and BBU, 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, 2016 the company had commitments of \$7.4 billion to funds, of which \$7.0 billion is expected to be funded by managed entities and the balance of \$468 million by the Corporation. In addition, we had \$19.9 billion of private fund 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 pages 74 and 75, 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.

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 aggregate capital resources and liquidity and reduce our corporate level 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. We may, however, 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.

The core liquidity of our listed partnerships, including proceeds of asset dispositions, private fund distributions and financings, is typically retained by each listed partnership and is not distributed to the Corporation or other unitholders. Should we, through our controlling interest, choose to repatriate this liquidity, the Corporation would receive its proportionate share as a distribution from the principal subsidiaries. Such repatriations would not have any material tax consequences to the Corporation.

REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

FOR THE YEARS ENDED DEC. 31
(MILLIONS)

	2016	2015
Operating activities.....	\$ 3,083	\$ 2,788
Financing activities.....	6,993	8,222
Investing activities.....	(8,557)	(11,064)
Change in cash and cash equivalents.....	\$ 1,519	\$ (54)

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 \$3.1 billion in 2016, a \$295 million increase from 2015. 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. 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 outflow of \$243 million in 2016 (2015 – \$128 million). Operating cash flow prior to non-cash working capital and residential inventory was \$3.8 billion during the current year, which was \$0.9 billion higher than 2015 due to the benefits of same-store growth from our existing operations and the contributions from assets acquired over the last twelve months.

Financing Activities

The company generated \$7.0 billion of cash flows from financing activities during 2016, as compared to \$8.2 billion in 2015. Our subsidiaries issued \$23.8 billion (2015 – \$15.6 billion) and repaid \$20.4 billion (2015 – \$11.5 billion) of property-specific and subsidiary borrowings, for a net issuance of \$3.4 billion (2015 – \$4.1 billion) during the year. We raised \$10.6 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, including the repayment of \$1.7 billion of short-term borrowings backed by private fund commitments, and returned \$5.1 billion to our clients in the form of either distributions or return of capital. Most of the activity related to the acquisition of our Colombian hydroelectric portfolio and acquisitions within our property and infrastructure funds. The corporation issued \$0.9 billion of medium-term notes, the proceeds of which were used to repay medium-term notes that came to maturity.

Investing Activities

During 2016, we invested \$17.9 billion and generated proceeds of \$9.4 billion from dispositions for net cash deployed in investing activities of \$8.4 billion. This compares to net cash investments of \$12.8 billion in 2015. We acquired \$9.4 billion of consolidated subsidiaries across our various strategies. Disposition proceeds included over \$4.0 billion from the sale of office properties. We invested \$3.7 billion in financial assets, such as debt and equity securities. Investing activities were higher in the prior year due to particularly large investments in our property and private equity funds.

CONTRACTUAL OBLIGATIONS

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

AS AT DEC. 31, 2016 (MILLIONS)	Payments Due by Period				Total
	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years	
Corporate borrowings	\$ 425	\$ 447	\$ 260	\$ 3,368	\$ 4,500
Principal repayments					
Non-recourse borrowings					
Property-specific mortgages	7,655	13,965	13,467	17,355	52,442
Other debt of subsidiaries	866	2,699	1,955	2,429	7,949
Subsidiary equity obligations	421	143	1,217	1,784	3,565
Accounts payable and other					
Capital lease obligations	27	6	2	1	36
Other	7,694	1,629	262	2,294	11,879
Commitments	695	431	29	301	1,456
Operating leases ¹	105	222	28	447	802
Interest expense ²					
Corporate borrowings	201	375	342	878	1,796
Non-recourse borrowings	2,776	4,549	3,219	4,378	14,922
Subsidiary equity obligations	198	376	318	378	1,270

1. Operating land leases with agreements largely expiring after the year 2065 totalled \$4.4 billion as at December 31, 2016

2. 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 \$1.5 billion (2015 – \$0.9 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 Corporation is required under certain circumstances to purchase BPY's preferred equity units at redemption, as described below, accordingly, commitments in 2016 include \$226 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 \$1,574 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 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.

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 61% owned BEP as previously described on page 50.

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

Actions or conduct that have a negative impact on clients' or stakeholders' perception of us could adversely impact our ability to attract and/or retain client capital.

The growth of our asset management business relies on continuous fundraising for various private and public 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 entities we manage. If we are unable to continue to raise capital from third-party investors, either privately, publicly or both, 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 entities, making it more difficult for us to raise new capital. Investors may decline to invest in current and future managed entities and may withdraw their investments from our managed entities as a result of poor performance in the entity in which they are invested, and investors in our private funds may demand lower fees for new or existing funds, all of which would decrease our revenue.

Because of our various lines of businesses and investment products, some of which have overlapping mandates, 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. These conflicts may be magnified for an asset manager that has many different capital sources available to pursue investment opportunities, including client capital and the Corporation's own capital. In addition, the senior management team of the Corporation and its affiliates has their own capital invested in Class A shares, directly and indirectly, and may have financial exposures with respect to their own investments which could lead to potential conflicts if such investments are similar to those made by the Corporation or on behalf of clients in entities managed by the Corporation. 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 of the type outlined in this paragraph could give rise to investor dissatisfaction, litigation, regulatory enforcement actions or other detrimental outcomes. Appropriately dealing with conflicts of interest for an asset manager like us 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. There has been enhanced regulatory scrutiny of asset manager conflicts in the markets in which we operate and in the U.S. in particular. Such regulatory scrutiny can lead to fines, penalties and other negative consequences. 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 adequately capitalize existing managed entities or raise new managed entities, including private funds, and a reluctance of counterparties to do business with us.

The governing agreements of our private funds provide that, subject to certain conditions, third-party investors in these funds will have the right to remove us as general partner or to accelerate the liquidation date of the fund for convenience. Any negative impact to our reputation would be expected to increase the likelihood that a private fund 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 fund, particularly if we are unable to maximize the value of the fund'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 managed entities 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.

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) Asset Management

Investment returns could be lower than target returns due to inappropriate allocation of capital or ineffective investment management, or growth in fee bearing capital could be adversely impacted by poor product development or marketing efforts.

Our value investing strategy focuses on acquiring high quality businesses on a value basis, executing operational improvements and exiting through a competitive process that optimizes value. The successful execution of our 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. Such an investing style carries with it inherent risks when investments are made in either markets or industries that are undergoing some form of dislocation. In addition, 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 managed entities 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 managed entities 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 managed entities perform poorly, our fee-based revenue and cash flow would decline. Moreover, we could experience losses on our own capital invested in our managed entities. 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 managed entities to the extent those concentrated investments are in assets or regions that experience a market dislocation.

Competition from other asset managers for raising 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 private funds, 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 managed entities 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, a lower cost of capital, or a lower effective tax rate (or no tax rate at all), all of 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, some of whom may have synergistic businesses which allow them to consider bidding a higher price than we can reasonably offer. 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. While we attempt to deal with competitive pressures by leveraging our asset management strengths and operating capabilities and compete on more than just price, there is no guarantee these measures will be successful and we may have difficulty competing for investment opportunities, particularly those offered through auction processes.

d) Temporary Investments

We may be unable to syndicate, assign or transfer financial commitments entered into in support of our asset management franchise.

We periodically enter into agreements that commit us to acquire assets or securities in order to support our asset management franchise. For example, we may acquire an asset suitable for a particular managed entity that we are fundraising and warehouse that asset through the fundraising period before transferring the asset to the managed entity for which it was intended. Or, as another example, for a particular acquisition transaction we may commit capital as part of a consortium alongside certain of our managed entities with the expectation that we will syndicate or assign all or a portion of our own commitment to other investors prior to, at the same time as, or subsequent to, the anticipated closing of the transaction. In all of these cases, our support is intended to be of a temporary nature and we engage in this activity in order to further the growth and development of our asset management franchise. By leveraging the Corporation's financial position to make temporary investments we can execute on investment opportunities prior to obtaining all third-party equity financing that we seek, and these opportunities may otherwise not be available without the Corporation's initial equity participation.

While it is often our intention in these arrangements that the Corporation's direct participation be of a temporary nature, we may be unable to syndicate, assign or transfer our interest as we intended and be required to take or keep ownership of an asset for an extended period. This would increase the amount of our own capital deployed to certain assets and could have an adverse impact on our liquidity, which may reduce our ability to pursue further acquisitions or meet other financial commitments.

e) Laws, Rules and Regulations

Failure to comply with regulatory requirements could result in financial penalties, loss of business, and/or damage to 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 U.K., 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 managed entities 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 managed entities, and conditions on the leverage our managed entities may employ and the liquidity these managed entities 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 various 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 managed entities 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 U.K. 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 managed entities 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) Foreign Exchange

Foreign exchange rate fluctuations could adversely impact our aggregate foreign currency exposure.

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. In addition, we are active in certain markets whose economic growth is dependent on the price of commodities and the currencies in these markets can be more volatile as a result.

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. Additionally, derivatives that we use 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.

h) Interest Rates

Rising interest rates could increase our interest costs.

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. As the value of an asset declines as a result of interest rate increases, certain financial and other covenants under credit agreements governing such asset could be breached, even if we have satisfied and continue to satisfy our payment obligations. Such a breach could result in negative consequences on our financial performance and results of operations.

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.

i) Human Capital

Ineffective maintenance of our culture, or ineffective management of human capital could adversely impact our asset management business.

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 managed entities 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 managed entities 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.

j) 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 managed entities, and the willingness of investors to invest in our managed entities. 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.

The Corporation endeavours to be considered a “qualified foreign corporation” for U.S. federal income tax purposes and for the Corporation’s dividends to therefore be considered generally eligible for “qualified dividend” treatment in the U.S. Whether dividends paid by the Corporation will in fact be treated as “qualified dividends” for U.S. federal income tax purposes for a particular shareholder of the Corporation will depend on that shareholder’s specific circumstances, including, but not limited to, the shareholder’s holding period for shares of the Corporation on which dividends are received. The Corporation provides no assurances that any or all of its dividends paid to shareholders will be treated as “qualified dividends” for U.S. federal income tax purposes.

k) Financial and Liquidity

Cash may not be available to meet our financial obligations when due or enable us to capitalize on investment opportunities when they arise.

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 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.

l) Financial Reporting and Disclosures

Deficiencies in our public company 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.

m) 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 managed entities. 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; 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.

Unforeseen political events in markets where we own and operate assets and may look to for further growth of our businesses, such as the U.S. and European markets, may create economic uncertainty that has a negative impact on our financial performance. Such uncertainty could cause disruptions to our businesses, including affecting the business of and/or our relationships with our customers and suppliers, as well as altering the relationship among tariffs and currencies, including the value of the British pound and the Euro relative to the U.S. dollar. Disruptions and uncertainties could adversely affect our financial condition, operating results and cash flows. In addition, political outcomes in the markets in which we operate may also result in legal uncertainty and potentially divergent national laws and regulations, which can contribute to general economic uncertainty. Economic uncertainty impacting us and our managed entities could be exacerbated by near-term political events, including those in the U.S., Europe and elsewhere.

n) 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 managed entities; (iii) the value or performance of the investments made by us and our managed entities; and (iv) the ability of us and our managed entities 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 funds have a finite life that may require us to exit an investment made in a fund 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 fund investment successfully. We cannot always control the timing of our private fund 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).

o) 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 managed entities. 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 our managed entities.

p) 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.

q) 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.

r) 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 managed entities may subject us, our managed entities 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.

s) 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.

For economic efficiency and other reasons, the Corporation and its affiliates may enter into insurance policies as a group which are intended to provide coverage for the entire group. Since they are group policies, any payments under a policy could have a negative impact on other entities covered under the policy since they may not be able to access adequate insurance in the event it is needed. While management attempts to design coverage limits under group policies to ensure that all entities covered under a policy have access to sufficient insurance coverage, there are no guarantees that these efforts will be effective in obtaining this result.

t) 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 funds make capital commitments to these vehicles through the execution of subscription agreements. When a private fund makes an investment, these capital commitments are then satisfied by our investors via capital contributions. Investors in our private funds 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.

u) 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. For example, our hospitality business faces risks relating to hurricanes, earthquakes, tsunamis, and other natural and man-made disasters, the potential spread of contagious diseases such as the Zika virus, and insect infestations more common to rental accommodations. 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.

v) 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 revenue is tied, either directly or indirectly, to the wholesale market price for electricity, which is 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.

w) Infrastructure

We face risks specific to our infrastructure activities.

Our infrastructure operations include utilities, transport, energy, communications infrastructure, timberlands and agriculture operations. Our infrastructure assets include toll roads, telecommunication towers, 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 and services provided by our infrastructure operations and the goods produced and sold by our timberlands and agriculture 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.

x) Private Equity

We face risks specific to our private equity activities.

The principal risks for our private equity businesses 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 business may be required to sell its investment at a loss. Investments in some of the businesses we target may become subject to legal and/or regulatory proceedings and therefore our investment may be adversely affected by external events 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, and commodity price declines can have a significant negative impact on these operations. 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.

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. 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.

y) 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.

PART 6 – ADDITIONAL INFORMATION

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Accounting Policies, 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In making 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.

For further reference on accounting policies, judgments and estimates, see our significant accounting policies contained in Note 2 of the December 31, 2016 consolidated financial statements.

i. 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 assumptions and estimates used when determining the fair value of commercial properties include: 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 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 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. 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.

Adoption of Accounting Standards

The company has applied new and revised standards issued by the IASB that are effective for the period beginning on or after January 1, 2016 as follows:

Property, Plant and Equipment and Intangible Assets

IAS 16 *Property, Plant and Equipment* (“IAS 16”) and IAS 38 *Intangible Assets* (“IAS 38”) were amended to clarify the appropriate method of amortization for intangible assets. Amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant, and equipment; the amendments 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. The company adopted the amendments to IAS 16 and IAS 38 on January 1, 2016, on a prospective basis, the adoption did not have a significant impact on the company’s consolidated financial statements.

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 an investor and its associate or joint venture. The amendments are effective for transactions occurring in annual periods beginning on or after January 1, 2016 with earlier application permitted. The impacts of the amendments to IFRS 10 and IAS 28 on the consolidated financial statements are not significant.

Future Changes in Accounting Standards

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. The IASB has tentatively deferred mandatory adoption of IFRS 15 until periods beginning on or after January 1, 2018 with early application permitted. The company is in the process to determine 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 allow 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 mandatory 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 sheets, 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.

Statement of Cash Flows

In January 2016, the IASB issued the amendments to IAS 7 *Statement of Cash Flows*, effective for annual periods beginning January 1, 2017. The IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. Since the amendments are being issued less than one year before the effective date, the company is not required to provide comparative information when it first applies the amendments. The company has not yet determined the impact of amendments on its consolidated financial statements.

Income Taxes

The amendment to IAS 12, *Income Taxes* (“IAS 12”) clarifies the following aspects: (i) unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; (ii) the carrying amount of an asset does not limit the estimation of probable future taxable profits; (iii) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; (iv) an entity assesses a deferred tax asset in combination with other deferred tax assets. The amendment to IAS 12 is effective for annual periods beginning January 1, 2017. The amendment will not have any significant impact to the consolidated financial statements of the company.

Foreign Currency Transactions and Advance Consideration

IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (“IFRIC 22”) clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The interpretation is effective for periods beginning on or after January 1, 2018 and may be applied either retrospectively or prospectively. The company has not yet determined the impact of IFRIC 22 to 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, 2016 and based on that assessment concluded that, as of December 31, 2016, 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, 2016 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, 2016. 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, 2016 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 Corporate Executive Board, as defined in the Dutch Act of Financial Supervision (“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 2016 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, 2016, 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, 2016 and December 31, 2015:

In connection with our newly launched open-ended real estate fund, BPY contributed certain operating buildings and development projects for net proceeds of approximately \$500 million, which was received in the form of cash and limited partner interest in the fund. The company is the general partner of the fund and will earn fees for the management of this fund. This fund is equity accounted for in the consolidated financial statements of the company.

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.