

Management’s Discussion and Analysis

ORGANIZATION OF THE MANAGEMENT’S DISCUSSION AND ANALYSIS (“MD&A”)

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“Brookfield,” the “company,” “we,” “us” or “our” refers to Brookfield Asset Management Inc. and its consolidated subsidiaries. The “corporation” refers to our asset management business which is comprised of our asset management and corporate business segments. Our “invested capital” includes our “listed partnerships,” Brookfield Property Partners L.P., Brookfield Renewable Partners L.P., Brookfield Infrastructure Partners L.P. and Brookfield Business Partners L.P., which are separate public issuers included within our Real Estate, Renewable Power, Infrastructure and Private Equity segments, respectively. Additional discussion of their businesses and results can be found in their public filings. We use “private funds” to refer to our real estate funds, infrastructure funds and private equity funds.

Please refer to the Glossary of Terms beginning on page 56 which defines our key performance measures that we use to measure our business. Other businesses include Residential Development and Corporate.

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 MD&A is filed under Form 40-F and we furnish our quarterly interim reports under Form 6-K.

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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This 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. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.”

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of the corporation to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: investment returns that are lower than target; the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behavior of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, the corporation undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

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

This 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” above.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards (“IFRS”). We utilize these measures in managing the business, including for 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 the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities. 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 Report. Please refer to our Glossary of Terms beginning on page 56 for all non-IFRS measures.

PART 1 – OUR BUSINESS AND STRATEGY

OUR BUSINESS

We are a leading global alternative asset manager¹, focused on investing in long-life, high-quality assets across real estate, renewable power, infrastructure and private equity. We provide a wide variety of investment products to our investors including private funds¹, listed issuers¹ and public securities¹. Our interests are aligned with our investors because we invest large amounts of our own balance sheet capital in our funds—we are typically the largest investor in our private funds and the largest investor in each of our listed issuers.

We have built our business around assets and businesses that are resilient through market cycles and deliver robust returns. Our deep experience investing in, owning and operating real assets has enabled us to successfully underwrite acquisitions and to enhance returns through our expertise in operational improvements, financing strategies and execution of development projects.

Our financial returns are represented primarily by the combination of fees we earn as an **asset manager** as well as capital appreciation and distributions from our **invested capital**¹. Our primary performance measure is funds from operations¹ (“FFO”), which we use to evaluate the operating performance of our segments.

In our **asset management** activities, we manage private funds, listed issuers and public securities portfolios for investors which we refer to as fee bearing capital¹. FFO from these activities consist of: (i) base¹ and other recurring fees that we earn as manager less direct costs of doing so; (ii) incentive distributions¹ and performance fees¹ from our listed issuers; and (iii) realized carried interest¹ from private funds. As a supplement to our performance measurement, we also provide unrealized carried interest¹ which represents the amount of carried interest¹ generated based on investment performance to date and is therefore more indicative of earnings potential.

Our **invested capital** consists largely of investments in our listed issuers and other listed securities, which currently make up 83% of our invested capital. The remaining 17% is largely invested in our residential development business and our energy marketing activities. Our invested capital provides us with FFO and cash distributions, most of which is generated by the investments in our limited partner interests in our listed entities, which pay stable recurring distributions.

Our **balance sheet** also allows us to capitalize quickly on opportunities as they arise, backstop the transactions of our various businesses as necessary and fund the development of new activities by seeding new investment strategies that are not yet suitable for our investors. Finally, the amount of capital invested by us directly in our listed issuers, and through them into our private funds, creates alignment of interests with our investors¹.

Refer to Part 2 and 3 of this MD&A for more information on our operations and performance.

OUR STRATEGY

As a leading global alternative asset manager, our business strategy is focused on the following:

- Generate superior investment returns for our investors, utilizing our competitive advantages of large-scale capital, global reach and operating expertise
- Offer a wide range of traditional and innovative products that meet our investors’ requirements
- Provide exceptional client service
- Utilize our balance sheet to accelerate growth in our asset management activities, align our interests with investors and generate additional returns

1. See definition in Glossary of Terms beginning on page 56

ORGANIZATIONAL STRUCTURE

We employ approximately 1,200 employees within our asset management business and a further 80,000 employees throughout the rest of our operations. We have organized our activities into five principal groups: real estate, renewable power, infrastructure, private equity and public securities.

Our asset management operations include the creation of and raising capital for new funds, managing existing funds, client relations, product development and overseeing the management of the assets and investments owned through our investment strategies. Our invested capital consists primarily of major ownership interests in our listed issuers, our residential development business and other directly held securities. Invested capital is funded in part by our corporate leverage which includes long-term debt and perpetual preferred shares.

Our investment products, or managed funds, include: our flagship listed issuers (BPY,¹ BEP,¹ BIP¹ and BBU¹); our private funds, including our flagship private funds along with a number of niche and open-end perpetual funds; and public securities strategies such as mutual funds and separately managed accounts.

Our operating assets encompass all of the assets owned by our funds as well as the various operating groups that we have established over decades to manage operating assets, such as our real estate and renewable power groups, as well as portfolio investments which have dedicated management teams that are overseen by us.



1. See definition in Glossary of Terms beginning on page 56

PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. The financial data in this section has been prepared in accordance with IFRS.

OVERVIEW

Net income decreased to \$941 million in the current period, with \$163 million attributable to common shareholders (\$0.11 per share) and \$778 million attributable to non-controlling interests.

The current quarter's results were significantly impacted by the following notable transactions:

- On August 28, 2018, we privatized GGP Inc. (“GGP”)¹, previously a 34%-owned equity accounted investment, and formed a new entity known as Brookfield Property REIT Inc. (“BPR”)¹ to hold the GGP assets. We began consolidating BPR immediately after completing this step-up acquisition. As BPR shareholders are entitled to an economic return equivalent to BPY shareholders, BPR will be treated as a separate class of non-controlling interest in the equity of BPY.
 - As part of the transaction, we paid \$9.3 billion in cash (\$9.05 billion as a pre-closing dividend and \$200 million as merger consideration), and issued \$5.2 billion of new BPY and BPR equity to GGP shareholders. The cash was raised through acquisition debt, proceeds from the sale of interests in GGP assets and the issuance of non-controlling interests in subsidiaries of GGP. The equity issuances reduced our interest in BPY from 69% to 53%.
 - The privatization also resulted in significant fair value adjustments to reflect the impact of the derecognition of our equity accounted investment and the initial consolidation of BPR's net assets as well as respective deferred tax impacts. Additional information on the fair value changes is included on pages 17 and 18 and the transaction is discussed in more detail in Part 3 – Real Estate.
- On August 1, 2018, our Private Equity segment acquired a 100% interest in Westinghouse Electric Company (“Westinghouse”), a provider of services to the power generation industry, for total consideration of \$3.8 billion.

Significant acquisitions and dispositions are discussed in more detail on pages 16 and 17.

The \$51 million decrease in consolidated net income and the \$65 million decrease in net income attributable to common shareholders were primarily attributable to:

- lower appraisal gains on consolidated investment properties compared to the prior year quarter; partially offset by
- contributions from recently acquired businesses and organic growth across multiple operations.

The privatization of GGP had a significant impact on our balance sheet as its assets and liabilities are now included in our consolidated results. Other significant acquisitions also contributed to the increase. These include our power generation industry service provider; a marine energy services business; a New York office building; and numerous entities acquired in the first three quarters of the year. In total, we acquired \$57.3 billion of assets through business combinations, inclusive of the assets acquired in the step-up acquisitions of GGP and our marine energy services business. We also sold a number of assets during the first nine months of 2018, most notably our Chilean electricity transmission business, an office property in Toronto and various assets in our LP investments portfolio, including a portfolio of self-storage assets.

1. See definition in Glossary of Terms beginning on page 56

INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for the three and nine months ended September 30, 2018 and 2017:

FOR THE PERIODS ENDED SEP 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change
Revenues	\$ 14,858	\$ 12,276	\$ 2,582	\$ 40,765	\$ 27,721	\$ 13,044
Direct costs	(11,967)	(10,034)	(1,933)	(32,839)	(21,753)	(11,086)
Other income and gains/losses	144	(29)	173	581	236	345
Equity accounted income	50	505	(455)	680	1,090	(410)
Expenses						
Interest.....	(1,274)	(932)	(342)	(3,377)	(2,640)	(737)
Corporate costs.....	(25)	(24)	(1)	(76)	(69)	(7)
Fair value changes	132	132	—	1,537	141	1,396
Depreciation and amortization	(833)	(643)	(190)	(2,175)	(1,755)	(420)
Income taxes.....	(144)	(259)	115	(636)	(503)	(133)
Net income	941	992	(51)	4,460	2,468	1,992
Non-controlling interests.....	(778)	(764)	(14)	(2,760)	(2,052)	(708)
Net income attributable to shareholders	\$ 163	\$ 228	\$ (65)	\$ 1,700	\$ 416	\$ 1,284
Net income per share	\$ 0.11	\$ 0.20	\$ (0.09)	\$ 1.53	\$ 0.32	\$ 1.21

Three Months Ended September 30

Revenues for the quarter were \$14.9 billion, an increase of \$2.6 billion compared to the third quarter of 2017 primarily due to:

- additional revenues earned from numerous acquisitions completed since the prior year quarter across each of our listed partnerships¹. This is inclusive of the \$439 million of revenues recognized this quarter at GGP and our marine energy services business, both of which were previously equity accounted. The most significant contributions from recent acquisitions include:
 - \$740 million from a power generation industry service provider in our Private Equity segment acquired in August 2018;
 - \$333 million from portfolios of solar and wind assets in our Renewable Power segment; and
 - \$240 million from a Colombian natural gas distribution and commercialization business in our Infrastructure segment.
- same-store¹ increases, including improved performance at our graphite electrode manufacturing business and additional revenues at our road fuel distribution business; partially offset by
- the absence of revenues from assets sold and lower gross revenues from Norbord Inc. (“Norbord”)¹ which was consolidated until the fourth quarter of 2017 at which time we sold a portion of our investment and therefore no longer hold a controlling interest in the business. Norbord contributed \$579 million of revenues in the third quarter of 2017.

Our direct costs increased by \$1.9 billion in the third quarter of 2018 due to:

- recent acquisitions, as discussed above; and
- organic growth within existing operations, including higher input prices at our road fuel distribution business; partially offset by
- the deconsolidation of Norbord, which incurred \$379 million of direct costs in the third quarter of 2017.

Other income and gains of \$144 million in the third quarter of 2018 relate primarily to the sale of a portfolio of self-storage properties in our Real Estate segment.

1. See definition in Glossary of Terms beginning on page 56

Equity accounted income decreased by \$455 million to \$50 million primarily due to:

- the impact of consolidating two entities through step acquisitions during the quarter that were previously equity accounted, partially offset by the impact of equity accounting for Norbord, which was previously consolidated; and
- appraisal and valuation losses at various equity accounted investments.

Interest expense increased by \$342 million due to additional borrowings associated with acquisitions across our portfolio and additional corporate debt issued in the last twelve months.

We recorded fair value gains of \$132 million in the current quarter, primarily as a result of:

- the impact of step-up acquisitions of GGP in our Real Estate segment and our marine energy services business in the Private Equity segment;
- appraisal gains on properties in our core office and LP investments¹ portfolios; and
- unrealized gains on financial contracts entered into to manage foreign currency, interest rate profiles and pricing exposures.

Depreciation and amortization expense increased by \$190 million to \$833 million due primarily to businesses acquired in the last twelve months within our renewable power operations, particularly TerraForm Power, Inc. (“TERP”)² and TerraForm Global, Inc. (“TerraForm Global”), as well as recent acquisitions in our private equity operations.

Income tax expense decreased by \$115 million to \$144 million primarily due to a higher proportion of income earned in jurisdictions subject to lower tax rates than the Canadian domestic statutory income tax rate.

Nine Months Ended September 30

Revenues and direct costs for the first nine months of 2018 increased by \$13.0 billion and \$11.1 billion, respectively, compared to the same period in 2017, due primarily to the recent acquisitions described above. The acquisition of our road fuel distribution also contributed to the increase, as revenues include significant flow through duty amounts that are passed to customers and presented gross under IFRS, with minimal impact on gross margin.

Other income and gains on a year-to-date basis include:

- a \$338 million gain from the sale of our Chilean electricity transmission business in the first quarter of 2018; and
- a \$106 million gain on the sale of self-storage properties in our Real Estate segment during the current quarter.

Equity accounted income in the first nine months of 2018 decreased to \$680 million, compared to \$1.1 billion during the same period in 2017. In addition to the aforementioned explanations, the decrease is attributable to appraisal losses on certain GGP properties during the first quarter of 2018.

Fair value gains of \$1.5 billion for the first nine months of 2018 were significantly higher than the \$141 million reported in the prior period. In addition to the gains recognized during the current quarter, we recognized transaction-related gains relating to the recognition of deferred tax assets following a restructuring of our U.S. group in the first quarter of 2018 and strong valuation gains within our core office and LP investments real estate portfolios.

1. Formerly referred to as Opportunistic

2. See definition in Glossary of Terms beginning on page 56

Significant Acquisitions and Dispositions

We have summarized below the impact of recent significant acquisitions and dispositions on our results for the three and nine months ended September 30:

FOR THE PERIODS ENDED SEP. 30, 2018 (MILLIONS)	Three Months Ended				Nine Months Ended			
	Acquisitions		Dispositions		Acquisitions		Dispositions	
	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income	Revenue	Net Income
Real estate	\$ 330	\$ 100	\$ (90)	\$ (21)	\$ 663	\$ 159	\$ (250)	\$ (131)
Renewable power.....	333	(4)	—	—	814	(73)	—	—
Infrastructure.....	248	19	—	(5)	647	181	—	(19)
Private equity and other	1,672	13	(2)	(17)	11,013	3	(9)	(6)
	<u>2,583</u>	<u>128</u>	<u>(92)</u>	<u>(43)</u>	<u>13,137</u>	<u>270</u>	<u>(259)</u>	<u>(156)</u>
Gains recognized in net income.....	—	15	—	106	—	624	—	159
	<u>\$ 2,583</u>	<u>\$ 143</u>	<u>\$ (92)</u>	<u>\$ 63</u>	<u>\$ 13,137</u>	<u>\$ 894</u>	<u>\$ (259)</u>	<u>\$ 3</u>

Acquisitions

Private Equity

Recent acquisitions within our Private Equity segment contributed \$1.7 billion of revenues and \$13 million of net income for the three months ended September 30, 2018. Significant acquisitions include Westinghouse, our power generation industry service provider, acquired this quarter; a returnable plastic container business acquired in the second quarter of 2018; and tuck-in acquisitions completed at our road fuel distribution business in the fourth quarter of 2017.

Our results this quarter also benefited from the consolidation of our marine energy services business, previously an equity accounted investment. We are reflecting 100% of our marine energy services business' third quarter revenues and 100% of the business' net income in the table above as our original investment was made at the end of the third quarter of 2017. Gains that relate directly to the consolidation of this business are reported through the "Gains recognized in net income" line.

Renewable Power

Within our Renewable Power segment, recent acquisitions, primarily TERP and TerraForm Global, both of which are portfolios of wind and solar assets acquired in the fourth quarter of 2017, as well as a portfolio of European wind and solar assets acquired by TERP in the second quarter of 2018, contributed \$333 million of revenues and a net loss of \$4 million this quarter.

Real Estate

Numerous acquisitions in our core office and LP investment portfolios contributed \$201 million and \$49 million to revenues and net income, respectively.

In addition, since August 28, 2018, we have been consolidating the results of BPR; previously, we reported our 34% proportionate ownership share of GGP's results as equity accounted income. We recognized \$129 million of revenues since we began to consolidate this entity. We are also reporting our increased share of GGP's net income, an incremental \$51 million this quarter, to reflect our additional ownership interest as we are now consolidating the business. The net loss directly associated with the privatization of GGP is reported through the "Gains recognized in net income" line.

Infrastructure

Within our infrastructure operations, revenues increased by \$248 million and net income increased by \$19 million, primarily due to contributions from our recently acquired Colombian natural gas distribution and commercialization business.

Gains Recognized in Net Income

Gains of \$15 million relate primarily to the net impact of the step-up acquisitions of GGP and our marine energy services business as well as gains relating to the acquisitions of certain assets in our Real Estate segment's LP investments portfolio.

Revenues and net income for the nine months ended September 30, 2018 increased by \$13.1 billion and \$0.9 billion, respectively, from the aforementioned transactions as well as contributions from businesses acquired during the first half of the prior year, most notably our road fuel distribution business, our Brazilian regulated gas transmission business and our Brazilian water treatment business.

On a year-to-date basis, we recognized total gains in net income of \$624 million relating primarily to changes in the ownership of entities in the first quarter which gave rise to the recognition of previously unrecognized tax assets.

Further details relating to the significant acquisitions described above that were completed during the nine months ended September 30, 2018 are provided in Note 4 of the interim consolidated financial statements.

Dispositions

Recent asset sales across our listed issuers, including our European logistics business, our Chilean electricity transmission operation, several office properties and an oil and gas producer in Western Canada decreased revenues and net income by \$92 million and \$43 million, respectively in the third quarter of 2018. The gains recognized in net income relate to the portfolio premium earned on our sale of a portfolio of self-storage assets in our Real Estate segment.

Revenues and net income for the nine months ended September 30, 2018 decreased by \$259 million and \$156 million from the aforementioned transactions as well as the absence of revenues and net income from office property sales in Midtown Manhattan and our bath and shower manufacturing business.

Fair Value Changes

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

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change
Investment properties	\$ 409	\$ 713	\$ (304)	\$ 1,273	\$ 1,102	\$ 171
Transaction related gains, net of deal costs...	(133)	(105)	(28)	844	20	824
Financial contracts	103	(390)	493	86	(704)	790
Impairment and provisions.....	(214)	(22)	(192)	(265)	(102)	(163)
Other fair value changes	(33)	(64)	31	(401)	(175)	(226)
Total fair value changes	\$ 132	\$ 132	\$ —	\$ 1,537	\$ 141	\$ 1,396

Investment Properties

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 PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change
Core office.....	\$ 63	\$ 53	\$ 10	\$ 131	\$ (296)	\$ 427
LP investments and other	346	660	(314)	1,142	1,398	(256)
	\$ 409	\$ 713	\$ (304)	\$ 1,273	\$ 1,102	\$ 171

We discuss the key valuation inputs of our investment properties on page 54.

Core Office

Appraisal gains in the current quarter related primarily to discount rate compression at certain Australian properties that are nearly ready for sale and higher rent growth assumptions for our Toronto properties, totaling \$63 million.

Valuation gains of \$53 million in the prior year quarter were primarily attributable to improved cash flow projections and higher market appraisals in our New York, Sydney and Calgary office portfolios, partially offset by losses from tenant departures and an amended projected sales price of a New York office building.

The nine-month appraisal gains also include increases in market rents at two office properties in Sydney.

LP Investments and Other

Appraisal gains totaled \$346 million in the quarter due to:

- strong leasing activity and the completion of several developments within our India office portfolio; and
- strengthened market conditions in several markets and compressed discount rates; partially offset by
- losses in our U.S. opportunistic retail portfolio due to tenant move-outs.

In the prior year quarter, valuation gains of \$660 million were primarily due to the signing of an agreement to sell our European industrial portfolio, strong cash flow growth and occupancy increases in our multifamily portfolios and strong leasing activity and increased market rents in our Indian office portfolio and our South Korean mixed-use building.

The nine-month period also includes gains on our manufactured housing portfolio for which the original appraisal model was updated during the first quarter, as well as tightening of discount and terminal capitalization rates in our U.S. industrial portfolios during the second quarter as valuation assumptions were updated to reflect de-risking of development properties upon meeting construction milestones.

Transaction Related Gains, Net of Deal Costs

Transaction related losses of \$133 million in the third quarter of 2018 relate primarily to:

- the privatization of GGP, resulting in a net transaction loss of \$253 million, primarily due to the recognition of a \$330 million deferred tax liability on the formation of BPR. Excluding this deferred tax liability, we recorded a \$77 million gain on the transaction as the net bargain purchase gain was only partially offset by the fair value adjustments to write down the carrying value of our investment in GGP to its fair value immediately prior to acquiring control; and
- deal costs of \$146 million across the company; partially offset by
- a \$250 million gain recognized on taking control of our marine energy services business in our Private Equity segment. The fair value of our investment the day that it ceased to be equity accounted exceeded our carrying value, resulting in a fair value gain of \$206 million. We also extinguished subsidiary level debt and warrants for a total gain of \$44 million.

The year-to-date gains also include the recognition of previously unrecognized tax assets following the acquisition and restructuring of two businesses, as well as a gain following the extinguishment of outstanding debt relating to a hospitality asset.

Financial Contracts

Financial contracts include mark-to-market gains and losses on contracts related to foreign currency, interest rate, and pricing exposures that are not designated as hedges.

Unrealized gains of \$103 million in the current quarter relate primarily to the mark-to-market movements on our interest rate swaps, cross-currency swaps and commodity derivatives as well as fair value changes on currency hedges which do not qualify for hedge accounting, partially offset by the amortization of option premiums.

The prior period losses relate to a change in fair value of our GGP warrants primarily due to a decrease in share price, as well as losses incurred on the valuation of our power, interest rate and foreign currency contracts.

Impairment and Provisions

Impairment charges relate primarily to a \$180 million write-down of property, plant and equipment in our Canadian energy options in our Private Equity segment as a result of continued weakness in natural gas prices.

Income Taxes

We recorded an aggregate income tax expense of \$144 million in the third quarter of 2018, compared to \$259 million in the same period of 2017, including current taxes of \$119 million (2017 – \$97 million) and a deferred tax expense of \$25 million (2017 – \$162 million).

The decrease in income tax expense relates primarily to a higher proportion of income earned in jurisdictions subject to lower tax rates than the Canadian domestic statutory income tax rate.

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 predominantly 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 PERIODS ENDED SEP. 30	Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change
Statutory income tax rate.....	26%	26%	— %	26%	26%	— %
Increase (reduction) in rate resulting from:						
Portion of gains subject to different tax rates	(1)	(1)	—	(4)	1	(5)
Change in tax rates and new legislation	—	—	—	(4)	—	(4)
International operations subject to different tax rates.....	(14)	4	(18)	(3)	1	(4)
Taxable income attributed to non-controlling interests	(8)	(6)	(2)	(6)	(9)	3
Derecognition (recognition) of deferred tax assets.....	8	(3)	11	—	(4)	4
Non-recognition of the benefit of current year's tax losses.....	2	2	—	2	4	(2)
Other	—	(1)	1	1	(2)	3
Effective income tax rate.....	13%	21%	(8)%	12%	17%	(5)%

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 earnings includes income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of associated 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 an 8% and 6% reduction in the effective tax rate relative to the statutory tax rate in 2018 and 2017, respectively.

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 14% reduction in our effective tax rate in the current quarter, compared to a 4% increase in the prior year quarter. The difference will vary from period to period depending on the relative proportion of income in each country.

BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at September 30, 2018 and December 31, 2017:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	2018	2017	Change
Assets			
Investment properties	\$ 79,217	\$ 56,870	\$ 22,347
Property, plant and equipment.....	59,688	53,005	6,683
Equity accounted investments.....	31,994	31,994	—
Cash and cash equivalents.....	7,839	5,139	2,700
Accounts receivable and other	15,424	11,973	3,451
Intangible assets	16,146	14,242	1,904
Other assets.....	23,653	19,497	4,156
Total Assets	\$ 233,961	\$ 192,720	\$ 41,241
Liabilities			
Borrowings and other non-current financial liabilities.....	\$ 119,411	\$ 88,867	\$ 30,544
Other liabilities	26,291	23,981	2,310
Equity			
Preferred equity	4,192	4,192	—
Non-controlling interests.....	61,376	51,628	9,748
Common equity	22,691	24,052	(1,361)
Total Equity	88,259	79,872	8,387
	\$ 233,961	\$ 192,720	\$ 41,241

September 30, 2018 vs. December 31, 2017

Recent acquisitions had a significant impact on our consolidated balance sheet this period. Consolidated assets at September 30, 2018 were \$234.0 billion, an increase of \$41.2 billion since December 31, 2017. The increases noted in the table above are largely attributable to \$57.3 billion of assets acquired through business combinations, increases in the fair value of our investment properties and additions to our fixed asset portfolios, including ongoing construction of existing assets and asset purchases. Further details on business combinations are provided in Note 4 of the interim consolidated financial statements.

Asset increases were partially offset by the derecognition of certain equity accounted investments upon obtaining controlling interests, asset sales during the period and decreasing foreign exchange rates in the major non-U.S. currencies in which we operate.

Investment properties consist primarily of the company's real estate assets. The balance as at September 30, 2018, increased by \$22.3 billion, primarily due to:

- acquisitions of \$23.2 billion, including \$18.0 billion of investment properties at GGP previously reported through equity accounted investments. In addition, our investments in office buildings in New York and Chicago, retail properties in China, a U.K. student housing portfolio, an office park in Mumbai and a mixed-use entertainment complex in Germany increased investment properties by \$5.2 billion;
- additions of \$1.8 billion as we enhanced or expanded numerous properties through capital expenditures; and
- appraisal gains recorded in fair value changes of \$1.3 billion, largely within our LP investments portfolio (refer to pages 17 and 18 for further information); partially offset by
- the \$1.4 billion impact of decreasing foreign exchange rates; and
- sales or reclassifications of \$2.5 billion, including the partial sale of an office property in Toronto, the sale of 112 self-storage properties across the U.S. and the reclassification of a number of properties to held for sale, including a terminal building in Toronto and an office tower in Ottawa.

We provide a continuity of investment properties in Note 9 of the interim consolidated financial statements.

Property, plant and equipment increased by \$6.7 billion primarily as a result of:

- acquisitions of \$9.7 billion, across all our operating segments, most significantly an infrastructure services provider in our Private Equity segment, a portfolio of extended-stay hotels across the U.S., hotel properties in Washington and Florida, wind and solar assets in Europe, a Colombian natural gas distribution and commercialization business and the consolidation of a marine energy services business that was previously equity accounted; and
- additions of \$1.4 billion primarily related to growth capital expenditures across all our operating segments; partially offset by
- the negative impact of foreign currency translation of \$1.7 billion; and
- depreciation expense of \$1.7 billion as well as sales in the period, including the reclassification of \$781 million to assets held for sale, most notably certain South African wind and solar assets within our Renewable Power segment.

We provide a continuity of property, plant and equipment in Note 10 of the interim consolidated financial statements.

Our September 30, 2018 equity accounted investments balance is consistent with year-end. Significant in-period changes include:

- the \$2.5 billion net impact of the GGP transaction, as the derecognition of our investment in GGP was more than offset by the consolidation of equity accounted investments held within GGP;
- \$1.4 billion of other additions or acquisitions through business combinations across our operating segments; and
- our share of comprehensive income of \$702 million; offset by
- the sale of our \$1.0 billion Chilean electricity transmission operation;
- the reclassification of our marine energy services business and two entities in our Real Estate and Corporate segments to consolidated subsidiaries after taking control of these entities;
- distributions received and returns of capital of \$1.3 billion; and
- the \$1.0 billion impact of decreasing foreign exchange rates.

We provide a continuity of equity accounted investments in Note 8 of the interim consolidated financial statements.

Cash and cash equivalents increased by \$2.7 billion as at September 30, 2018 compared to year end primarily due to timing of cash flows. For further information, refer to our Consolidated Statements of Cash Flows in the interim consolidated financial statements and to the Review of Consolidated Statements of Cash Flows within Part 4 – Capitalization and Liquidity.

Intangible assets increased by \$1.9 billion resulting from:

- acquisitions of \$3.8 billion, primarily from our third quarter acquisitions of an infrastructure services provider in our Private Equity segment and an Indian toll road in our Infrastructure segment; and
- additions of \$221 million across our various businesses; partially offset by
- the negative impact of foreign exchange of \$1.7 billion; and
- depreciation expense of \$452 million.

Other assets are comprised of inventory, goodwill, deferred income tax assets, assets classified as held for sale and other financial assets. The increase of \$4.2 billion is primarily a result of acquisitions completed in the year which increased all components of other assets, including adding \$2.0 billion of goodwill, partially offset by the impact of decreasing foreign exchange rates.

Borrowings and other non-current financial liabilities consist of our non-recourse borrowings, corporate borrowings, subsidiary equity obligations, non-current accounts payable and other long-term liabilities that are due after one year. The increase of \$30.5 billion since year end is primarily related to increases in borrowings as a result of:

- \$27.8 billion in additional property-specific borrowings due to acquisitions across multiple operating segments, most notably the privatization of GGP, and debt refinancings in various businesses, including our graphite electrode manufacturing business, our Brazilian regulated gas transmission business and our U.S. self-storage portfolio, partially offset by the impact of decreasing foreign exchange rates;
- \$1.0 billion increase in corporate borrowings due to a corporate debt issuance and commercial paper issuances, partially offset by decreasing foreign exchange rates; partially offset by
- a \$247 million decrease in subsidiary borrowings, largely attributable to the repayment of amounts previously drawn on revolving or term bank facilities, particularly within our infrastructure business, and the impact of decreasing foreign exchange rates, partially offset by our real estate operations issuing debt to raise funds for new acquisitions.

Refer to Part 4 – Capitalization and Liquidity for more information.

Equity

The significant variances in common equity and non-controlling interests are discussed below. Preferred equity is discussed in Part 4 of this report.

Common Equity

The following table presents the major contributors to the period-over-period variances for common equity:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30, 2018 (MILLIONS)	Total
Common equity, beginning of period	\$ 24,052
Changes in period	
Changes in accounting policies	(218)
Net income to shareholders	1,700
Common dividends	(431)
Preferred dividends	(114)
Foreign currency translation	(1,176)
Other comprehensive income	333
Share repurchases, net of issuances and vesting	(178)
Ownership changes and other	(1,277)
	(1,361)
Common equity, end of period	\$ 22,691

Common equity decreased by \$1.4 billion to \$22.7 billion during the nine-month period ended September 30, 2018. The change includes:

- a reduction in opening common equity of \$218 million to reflect the adjustments required to transition to IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), and IFRS 9 *Financial Instruments* (“IFRS 9”);
- net income attributable to shareholders of \$1.7 billion during the first nine months of 2018;
- other comprehensive losses of \$843 million, mostly attributable to foreign currency translation losses of \$1.2 billion as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar;
- share repurchases, net of issuances and vesting, of \$190 million, which included \$211 million paid to repurchase 5.2 million Class A common shares (“Class A shares”), of which \$160 million was to fund long-term compensation plans; and
- ownership changes and other which are primarily related to the dilution loss to reflect our reduced ownership interest in BPY following the GGP privatization, partially offset by gains relating to the partial disposition of our graphite electrode manufacturing business through initial public and secondary offerings in the second and third quarters, respectively.

Non-controlling Interests

Non-controlling interests in our consolidated results primarily consist of third-party interests in BPY, BEP, BIP and BBU, and their consolidated entities as well as co-investors and other participating interests in our consolidated investments as follows:

AS AT SEP. 30, 2018 AND DEC. 31, 2017
(MILLIONS)

	2018	2017
Brookfield Property Partners L.P.	\$ 30,841	\$ 19,736
Brookfield Renewable Partners L.P.	9,729	10,139
Brookfield Infrastructure Partners L.P.	10,305	11,376
Brookfield Business Partners L.P.	4,505	4,000
Other participating interests	5,996	6,377
	<u>\$ 61,376</u>	<u>\$ 51,628</u>

Non-controlling interests increased by \$9.7 billion to \$61.4 billion as at September 30, 2018, primarily due to:

- ownership changes attributable to non-controlling interests of \$9.2 billion relate to equity issued to former GGP shareholders as consideration for their interest in GGP and co-investment capital raised within GGP as part of the acquisition;
- comprehensive income attributable to non-controlling interests which totaled \$890 million; this is inclusive of foreign currency translation losses as average foreign currency rates in the jurisdictions where we hold the majority of our non-U.S. dollar investments weakened relative to the U.S. dollar; and
- net equity issuances to non-controlling interests totaling \$3.8 billion; partially offset by
- \$4.1 billion of distributions to non-controlling interests.

FOREIGN CURRENCY TRANSLATION

Approximately half of our capital is invested in non-U.S. currencies 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. The most significant currency exchange rates that impact our business are shown in the following table:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE PERIODS ENDED SEP. 30	Period End Rates			Average Rate					
				Three Months Ended			Nine Months Ended		
	2018	2017	Change	2018	2017	Change	2018	2017	Change
Australian dollar	0.7222	0.7809	(8)%	0.7315	0.7897	(7)%	0.7579	0.7662	(1)%
Brazilian real ¹	4.0032	3.3080	(17)%	3.9510	3.1636	(20)%	3.6049	3.1746	(12)%
British pound	1.3031	1.3521	(4)%	1.3032	1.3086	— %	1.3516	1.2760	6 %
Canadian dollar	0.7745	0.7953	(3)%	0.7652	0.7980	(4)%	0.7769	0.7658	1 %

1. U.S. dollar to Brazilian real

As at September 30, 2018, our IFRS net equity of \$22.7 billion was invested in the following currencies: United States dollars – 58%; Brazilian reais – 13%; British pounds – 13%; Australian dollars – 6%; Canadian dollars – 4%; and other currencies – 6%. Currency exchange rates relative to the U.S. dollar at the end of the third quarter of 2018 were lower than December 31, 2017 for all of our significant non-U.S. dollar investments.

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

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Australian dollar	\$ (154)	\$ 122	\$ (489)	\$ 503
Brazilian real	(436)	674	(2,563)	149
British pound	(131)	308	(342)	753
Canadian dollar	(133)	344	(397)	687
Other	(199)	278	(277)	557
	(1,053)	1,726	(4,068)	2,649
Currency hedges ¹	143	(588)	775	(1,598)
	\$ (910)	\$ 1,138	\$ (3,293)	\$ 1,051
Attributable to:				
Shareholders	\$ (437)	\$ 379	\$ (1,176)	\$ 420
Non-controlling interests	(473)	759	(2,117)	631
	\$ (910)	\$ 1,138	\$ (3,293)	\$ 1,051

1. Net of deferred income taxes of \$1 million for the three months ended September 30, 2018 and \$42 million for the nine months ended September 30, 2018

Lower period end rates for our non-U.S. dollar investments, particularly the Brazilian real which decreased 17% from the beginning of the year, reduced our equity net of currency hedges for the three and nine months ended September 30 by \$910 million and \$3.3 billion, respectively. Gains on our hedges against the Australian, British and Canadian currencies, for which financial contracts and foreign currency debt are used to reduce exposures, partially offset the foreign currency translation losses. We typically do not hedge our equity in Brazil and other emerging markets due to the high costs associated with these contracts.

SUMMARY OF QUARTERLY RESULTS

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

Our real estate operations typically generate consistent results on a quarterly basis due to the long-term nature of contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains. Our 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 real estate assets on a quarterly basis which results in variations in net income based on changes in the value.

Renewable power hydroelectric 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 regulation or long-term sales contracts with our investors, certain of which guarantee minimum volumes.

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 favorable in the latter half of the year which tends to increase construction activity levels.

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

FOR THE THREE MONTHS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2018			2017			2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues ¹	\$ 14,858	\$ 13,276	\$ 12,631	\$ 13,065	\$ 12,276	\$ 9,444	\$ 6,001	\$ 6,935
Net income.....	941	1,664	1,855	2,083	992	958	518	97
Net income (loss) to shareholders	163	680	857	1,046	228	225	(37)	173
Per share								
– diluted	\$ 0.11	\$ 0.62	\$ 0.84	\$ 1.02	\$ 0.20	\$ 0.19	\$ (0.08)	\$ 0.14
– basic	0.11	0.64	0.85	1.05	0.20	0.20	(0.08)	0.15

1. Prior period revenues have not been restated as we adopted IFRS 15 using the modified retrospective method as at January 1, 2018

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 THREE MONTHS ENDED (MILLIONS)	2018			2017			2016	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Fair value changes	\$ 132	\$ 833	\$ 572	\$ 280	\$ 132	\$ 213	\$ (204)	\$ (488)
Income taxes	(144)	(339)	(153)	(110)	(259)	(119)	(125)	(211)
Net impact.....	\$ (12)	\$ 494	\$ 419	\$ 170	\$ (127)	\$ 94	\$ (329)	\$ (699)

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

- Revenues increased primarily due to recent acquisitions across all segments, including the privatization of GGP, and organic growth, in particular improved pricing at our graphite electrode manufacturing business. Higher interest and depreciation expenses associated with recent acquisitions, and the recognition of a deferred tax expense associated with the GGP privatization, more than offset the increase in revenues.
- The increase in revenues in the second quarter of 2018 is primarily attributable to recent acquisitions, additional home closings in our North American residential business and improved pricing at our graphite electrode manufacturing business. Increases in direct costs offset these changes in revenue. While net income also benefited from strong performance at Norbord and appraisal and transaction-related gains in our Real Estate segment, results were more than offset by higher income tax expenses and the absence of a one-time gain recognized on the sale of a business in the first quarter.

- In the first quarter of 2018, revenues decreased due to the seasonality of our residential homebuilding and construction services businesses, partially offset by a full quarter of revenues contributed by recent acquisitions in our Renewable Power segment. Net income benefited from investment property valuation gains and other fair value gains recognized in the current quarter.
- The increase in revenues in the fourth quarter of 2017 is attributable to organic growth in existing operations across our business and acquisitions throughout the year. Net income benefited from gains from the sale of our European logistics company and from a change in basis of accounting for Norbord.
- Revenues in the third quarter of 2017 increased as a result of incremental contributions from acquisitions made partway through the second quarter of 2017, as described below, that have now contributed to a full quarter. Current quarter acquisitions also added to the increase, namely the acquisition of a fuel marketing business in our Private Equity segment. Results were partially offset by higher income tax expenses in the quarter.
- The overall increase in results in the second quarter of 2017 is predominantly attributable to acquisitions completed in the quarter, including a regulated gas transmission operation and leading water treatment business, both in Brazil, and a road fuel distribution business.
- In the first quarter of 2017, we recorded fair value losses, predominantly driven by mark-to-market losses on our GGP warrants, as well as decreases in valuations in our core office portfolio. Revenue declined from the prior quarter due to seasonality in our residential business.
- In the fourth quarter of 2016, the effect of overall increases in revenues across our businesses was 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.

CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities during the first nine months of 2018 and the same period in 2017 and 2016 are summarized in the following table:

	Distribution per Security		
	2018	2017	2016
Class A and B ¹ Limited Voting Shares (“Class A and B shares”)	\$ 0.45	\$ 0.42	\$ 0.39
Special distribution to Class A and Class B shares ^{2,3}	—	0.11	0.45
Class A Preferred Shares			
Series 2	0.35	0.28	0.27
Series 4 + Series 7	0.35	0.28	0.27
Series 8	0.50	0.40	0.38
Series 9	0.40	0.39	0.54
Series 13	0.35	0.28	0.27
Series 14 ⁴	—	—	0.11
Series 15	0.29	0.19	0.18
Series 17	0.69	0.68	0.68
Series 18	0.69	0.68	0.68
Series 24 ⁵	0.44	0.43	0.65
Series 25 ⁵	0.50	0.41	0.14
Series 26 ⁶	0.51	0.55	0.64
Series 28 ⁷	0.40	0.57	0.65
Series 30	0.68	0.69	0.68
Series 32	0.66	0.65	0.64
Series 34	0.61	0.60	0.60
Series 36	0.71	0.70	0.69
Series 37	0.71	0.70	0.69
Series 38	0.64	0.63	0.62
Series 40	0.66	0.65	0.64
Series 42	0.66	0.65	0.64
Series 44	0.73	0.72	0.71
Series 46 ⁸	0.70	0.79	—
Series 48 ⁹	0.46	—	—

1. Class B Limited Voting Shares (“Class B shares”)

2. Distribution of one common share of Trisura Group Ltd. for every 170 Class A Shares and Class B Shares held as of the close of business of June 1, 2017

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

4. Redeemed March 1, 2016

5. 1,533,133 shares were converted from Series 24 to Series 25 on July 1, 2016

6. Dividend rate reset commenced April 1, 2017

7. Dividend rate reset commenced July 1, 2017

8. Issued November 18, 2016

9. Issued September 13, 2017

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 operating performance primarily using FFO generated by each operating segment and the amount of capital invested by the corporation in each segment using common equity. Common equity relates to invested capital allocated to a particular business segment which we use interchangeably with segment common equity. To further assess operating performance for our Asset Management segment we also provide unrealized carried interest¹ which represents carried interest generated on unrealized changes in value of our private fund investment portfolios.

Our operating segments are global in scope and are as follows:

- i. *Asset management* operations include managing our listed partnerships, private funds and public securities on behalf of our investors and ourselves. We generate contractual base management fees¹ for these activities as well as incentive distributions and performance income, including performance fees, transaction fees and carried interest. Common equity in our asset management segment is immaterial.
- ii. *Real estate* operations include the ownership, operation and development of core office, core retail, LP investments and other properties.
- iii. *Renewable power* operations include the ownership, operation and development of hydroelectric, wind, solar, storage and other power generating facilities.
- iv. *Infrastructure* operations include the ownership, operation and development of utilities, transport, energy, data infrastructure and sustainable resource assets.
- v. *Private equity* operations include a broad range of industries, and are mostly focused on business services, infrastructure 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 capitalization¹, 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 assessing results, we separately identify the portion of FFO and common equity within our segments that relate to our primary listed partnerships: BPY, BEP, BIP and BBU. We believe that identifying the FFO and common equity 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 FFO between reporting periods. Additional information with respect to these listed partnerships is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains¹ included within the FFO of each segment in order to facilitate analysis of variances in FFO between reporting periods.

1. See definition in Glossary of Terms beginning on page 56

SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents revenues, FFO and common equity by segment on a period-over-period basis for comparative purposes:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues ¹			FFO			Common Equity		
	2018	2017	Change	2018	2017	Change	2018	2017	Change
Asset management	\$ 463	\$ 327	\$ 136	\$ 320	\$ 211	\$ 109	\$ 331	\$ 312	\$ 19
Real estate	2,039	1,671	368	464	382	82	16,971	16,725	246
Renewable power	933	612	321	48	45	3	4,331	4,944	(613)
Infrastructure	1,257	1,016	241	80	87	(7)	2,545	2,834	(289)
Private equity	10,010	8,242	1,768	247	137	110	4,298	4,215	83
Residential development	640	698	(58)	16	(24)	40	2,578	2,915	(337)
Corporate activities	54	103	(49)	(90)	(29)	(61)	(8,363)	(7,893)	(470)
Total	\$15,396	\$12,669	\$ 2,727	\$ 1,085	\$ 809	\$ 276	\$22,691	\$24,052	\$(1,361)

1. Revenues include inter-segment revenues which are adjusted to arrive at external revenues for IFRS purposes. Please refer to Note 3(c) of the interim consolidated financial statements

Total revenues and FFO were \$15.4 billion and \$1.1 billion in the current quarter compared to \$12.7 billion and \$809 million, in the prior year quarter, respectively. FFO includes realized disposition gains of \$401 million in the third quarter of 2018 compared to \$220 million in the prior year quarter.

Revenues increased by \$2.7 billion to \$15.4 billion in the current period, primarily as a result of:

- recent acquisitions across all business groups, including Westinghouse, as well as the step-up acquisitions of GGP and our marine energy services business; and
- organic growth, including the impact of improved pricing in our graphite electrode manufacturing business; partially offset by
- the absence of revenues from Norbord which was consolidated up until the fourth quarter of 2017 at which time we sold a partial interest and therefore no longer hold a controlling interest in the business.

FFO excluding disposition gains increased by \$95 million from the prior year quarter primarily due to recent acquisitions and organic growth described above as well as higher base management and performance fees in our asset management business partially offset by the impact of decreasing foreign exchange rates.

In the third quarter of 2018, we realized disposition gains of \$120 million in our Private Equity segment following the secondary offering of shares in our graphite electrode manufacturing business and a share buyback completed by the business. In our Real Estate segment, asset sales associated with the GGP privatization and the sale of a portfolio of self-storage properties resulted in realized gains of \$281 million.

Common equity decreased by \$1.4 billion to \$22.7 billion as contributions from earnings across our businesses were more than offset by the impact of decreasing foreign exchange rates and ownership changes on the privatization of GGP.

Further details on segment revenues, FFO and common equity are discussed in the following sections.



Fee Bearing Capital

The following table summarizes fee bearing capital:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total 2018	Total 2017
Real estate	\$ 25,646	\$ 31,267	\$ —	\$ 56,913	\$ 41,636
Renewable power	15,854	7,814	—	23,668	23,930
Infrastructure	17,769	16,441	—	34,210	38,751
Private equity	4,957	5,630	—	10,587	8,618
Diversified	—	—	15,236	15,236	12,655
September 30, 2018	\$ 64,226	\$ 61,152	\$ 15,236	\$ 140,614	n/a
December 31, 2017	\$ 60,560	\$ 52,375	\$ 12,655	n/a	\$ 125,590

Fee bearing capital increased by \$11.3 billion during the quarter. The principal changes are set out in the following table and described in further detail below:

AS AT AND FOR THE THREE MONTHS ENDED SEP. 30, 2018 (MILLIONS)	Listed Partnerships	Private Funds	Public Securities	Total
Balance, June 30, 2018	\$ 55,829	\$ 57,035	\$ 16,438	\$ 129,302
Inflows	6,793	4,907	662	12,362
Outflows	—	—	(2,017)	(2,017)
Distributions	(1,108)	(694)	—	(1,802)
Market valuation	2,690	69	151	2,910
Other	22	(165)	2	(141)
Change	8,397	4,117	(1,202)	11,312
Balance, September 30, 2018	\$ 64,226	\$ 61,152	\$ 15,236	\$ 140,614

Listed partnership capital increased by \$9.5 billion, excluding quarterly distributions, due to:

- \$6.8 billion of inflows, including \$5.7 billion related to the BPY and BPR capital issued as a result of the GGP privatization (BAM is entitled to earn incentive distributions on the units issued as part of the transaction effective the closing date but has agreed to a one-year management fee holiday on this capital). Additional inflows included \$0.8 billion of debt and/or preferred equity issued at BIP and BEP; and
- \$2.7 billion market valuation increase due to higher unit prices across each of the listed partnerships.

Private fund capital increased by \$4.1 billion, primarily due to \$4.9 billion of inflows, including \$2.7 billion of co-investment capital related to the privatization of GGP, \$1.1 billion of commitments to our third flagship real estate fund and additional commitments across our multifamily and open-end real estate funds.

Public securities capital decreased by \$1.2 billion due to the redemption of a low margin managed account as well as positive net inflows to our energy infrastructure and real asset solutions funds that were offset by net outflows to our infrastructure and real asset debt funds.

Carry Eligible Capital¹

Carry eligible capital increased \$2.7 billion during the quarter to \$49.6 billion as at September 30, 2018. This represents an increase of \$1.4 billion relating to the GGP co-investment, \$1.1 billion from commitments to our latest flagship real estate fund and additional capital from other funds raised in the quarter.

As at September 30, 2018, \$29.5 billion of carry eligible capital has been deployed (December 31, 2017 – \$24.2 billion). This capital is either currently earning carried interest or will begin earning carried interest once its related funds have reached their preferred return threshold. There is currently an additional \$20.1 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (December 31, 2017 – \$18.2 billion).

Operating Results

Asset management revenues include fee related earnings¹ and realized carried interest earned by us in respect of capital managed for investors, including the capital invested by us in the listed partnerships. This is representative of how we manage the business and measures the returns from our asset management activities.

To facilitate analysis, the following table disaggregates our Asset Management segment revenues and FFO into fee related earnings, realized carried interest, net¹, and unrealized carried interest, net¹, as these are the measures that we use to analyze the performance of the Asset Management segment. We have provided additional detail, where referenced, to explain significant variances from the prior period.

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO	
		2018	2017	2018	2017
Fee related earnings	i	\$ 463	\$ 302	\$ 320	\$ 186
Realized carried interest, net	ii	—	25	—	25
Asset management FFO		<u>\$ 463</u>	<u>\$ 327</u>	<u>\$ 320</u>	<u>\$ 211</u>
Unrealized carried interest.....				\$ 85	\$ 367
Less: direct costs.....				(25)	(95)
Unrealized carried interest, net.....	iii			<u>\$ 60</u>	<u>\$ 272</u>

i. Fee Related Earnings

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2018	2017
Fee revenues ¹		
Base management fees.....	\$ 313	\$ 262
Incentive distributions	52	38
Performance fees	94	—
Transaction and advisory fees.....	4	2
	<u>463</u>	<u>302</u>
Direct costs and other.....	(143)	(116)
Fee related earnings	<u>\$ 320</u>	<u>\$ 186</u>

Fee related earnings increased by \$134 million from the prior year quarter as a result of increased performance fees and continued growth in base management fees and incentive distributions.

- Base management fees of \$313 million in the quarter include fees earned from our listed partnerships, private funds and public securities businesses. The increase of \$51 million is due to:
 - \$36 million increase in private funds fees, including incremental catch-up fees of \$5 million, primarily due to \$8.5 billion of funds raised for our third flagship real estate fund. Catch-up fees are earned on commitments received in quarters subsequent to the initial close of a fund where base fees accrue from the initial close;
 - \$10 million increase in public securities fee revenues due to the acquisition of an energy and infrastructure investment advisor acquired in the first quarter of 2018; and

1. See definition in Glossary of Terms beginning on page 56

- \$5 million increase in listed partnership fees as a result of taking over the management of TERP in the fourth quarter of 2017 and increased market valuation at BBU resulting from strong unit price appreciation over the last twelve months.
- Incentive distributions from BIP, BEP and BPY increased by \$14 million to \$52 million, a 37% increase from 2017. The growth represents our share as manager of increases in per unit distributions by BIP, BEP and BPY of 8%, 5% and 7%, respectively, as well as the impact of equity issued by BIP, BEP and BPY.
- Performance fees of \$94 million represent fees earned from BBU and are calculated on an escalating threshold as 20% of the quarterly average unit price over the previous threshold. There was no performance fee recorded in the third quarter of 2017. In the third quarter of 2018, BBU's volume weighted average unit price increased by 10%; following the fee earned in the quarter, the performance threshold was revised upwards to \$41.96.
- Direct costs and other consist primarily of employee compensation expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased by \$27 million year-over-year as we continue to build out our organization to support current and future growth.

The margin on our fee related earnings, excluding the impact of the BBU performance fee, catch-up fees and transaction and advisory fees, was 60% in the current year period, compared with 61% in the prior year quarter.

ii. Realized Carried Interest

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 when the amount of carried interest to be recognized is no longer subject to future investment performance. We do, however, provide supplemental information and analysis below on the estimated amount of unrealized carried interest that has accumulated based on fund performance up to the date of the financial statements.

We realized no carried interest during the quarter (2017 – \$25 million).

iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest¹ and associated costs are shown in the following table:

AS AT AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2018			2017		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
Accumulated unrealized, beginning of period ...	\$ 2,527	\$ (778)	\$ 1,749	\$ 1,219	\$ (384)	\$ 835
In-period change						
Unrealized in period ¹	113	(31)	82	363	(93)	270
Foreign currency revaluation	(28)	6	(22)	4	(2)	2
	<u>85</u>	<u>(25)</u>	<u>60</u>	<u>367</u>	<u>(95)</u>	<u>272</u>
Less: realized	—	—	—	(25)	—	(25)
	<u>85</u>	<u>(25)</u>	<u>60</u>	<u>342</u>	<u>(95)</u>	<u>247</u>
Accumulated unrealized, end of period	\$ 2,612	\$ (803)	\$ 1,809	\$ 1,561	\$ (479)	\$ 1,082

1. Unrealized carried interest generated in period is defined in the Glossary of Terms on page 56 and represents management's estimate of carried interest if funds were wound up at period end. Amounts that will be realized are dependent on future investment performance

Favorable investment performance in our private funds generated \$113 million of unrealized carried interest during the quarter, compared with \$363 million in the prior year quarter. This was partially offset by \$28 million of foreign exchange losses compared with \$4 million of foreign exchange gains in the prior year quarter. The foreign exchange losses this quarter were largely due to the depreciation of South American currencies relating to assets within our real estate and infrastructure funds.

Accumulated unrealized carried interest totaled \$2.6 billion at September 30, 2018. We estimate that approximately \$803 million of associated costs will arise on the realization of the amounts accumulated to date, predominantly associated with employee long-term incentive plans and taxes. We expect to recognize \$1.3 billion of this carry within the next three years, though recognition of this carried interest is dependent on future investment performance.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Real Estate segment, and summarizes realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

		Revenues		FFO		Common Equity	
		2018	2017	2018	2017	2018	2017
AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		Ref.					
Brookfield Property Partners							
Equity units ¹	i	\$ 1,811	\$ 1,479	\$ 159	\$ 163	\$ 14,902	\$ 15,388
Preferred shares		16	19	16	19	765	1,265
		<u>1,827</u>	<u>1,498</u>	<u>175</u>	<u>182</u>	<u>15,667</u>	<u>16,653</u>
Other real estate investments		212	173	8	—	1,304	72
Realized disposition gains.....	ii	—	—	281	200	—	—
		<u>\$ 2,039</u>	<u>\$ 1,671</u>	<u>\$ 464</u>	<u>\$ 382</u>	<u>\$ 16,971</u>	<u>\$ 16,725</u>

1. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 73.2 million Class A limited partnership units, 4.8 million special limited partnership units, 0.1 million general partnership units, and 3.0 million BPR Class A shares, together representing an effective economic interest² of 53% of BPY
2. See "Economic ownership interest" in the Glossary of Terms beginning on page 56

There were two significant transactions during the quarter that impacted our presentation of results in the Real Estate segment:

- On August 28, 2018, BPY completed the privatization of GGP Inc., previously a 34%-owned equity accounted investment, and began consolidating its results.
 - A new publicly traded entity, Brookfield Property REIT Inc. ("BPR") was formed, issuing 161 million BPR Class A shares to former GGP shareholders as consideration. As BPR shareholders are entitled to an economic return equivalent to that of BPY unitholders, BPR Class A shares are treated as a separate class of BPY equity.
 - Consideration paid to GGP's shareholders also included 88 million newly issued BPY LP units. In addition, BAM acquired 21 million BPY LP units on conversion of its \$500 million Class C preferred shares. As a result of these transactions, BAM's effective ownership of BPY was reduced from 69% to 53%.
 - BPR's results are included in BPY's core retail operations. For the first two months of the quarter, BPY picked-up its 34% share of GGP's results and we reported our 69% share of BPY's FFO. For the month of September, BPR is incorporated into BPY's consolidated results, and we are reporting our 53% share of the combined entity.
- During the quarter, BPY sold 27.5% of its interest in a portfolio of operating and development assets in New York to BAM for net cash proceeds of \$1.4 billion. We expect to syndicate out our interest to third-party investors in the near term. Our share of this portfolio of assets' FFO and common equity are included in "other real estate investments."

Revenues from our real estate operations increased by \$368 million while FFO prior to disposition gains remained relatively consistent at \$183 million. The increase in revenues is primarily attributable to same-property¹ growth in our core office portfolio and the incremental contributions from BPR once we started to consolidate its results in the last month of the quarter. These contributions were offset by the impact of our reduced ownership interest in BPY during the last month of the quarter and lower same-store occupancy at our core retail assets which impacted performance.

1. See definition in Glossary of Terms beginning on page 56

Brookfield Property Partners

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

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2018	2017
Core office.....	\$ 136	\$ 126
Core retail.....	146	128
LP investments ¹	74	88
Corporate.....	(107)	(106)
Attributable to unitholders.....	249	236
Non-controlling interests.....	(90)	(73)
Brookfield's interest.....	\$ 159	\$ 163

1. Formerly known as "Opportunistic"

BPY's FFO for the third quarter of 2018 was \$249 million, an increase of \$13 million since the prior year quarter. Our share of its FFO decreased to \$159 million from \$163 million as a result of our reduced ownership interest in BPY following the GGP privatization.

Core Office

FFO increased by \$10 million to \$136 million primarily due to same-property growth of \$12 million, resulting from an increase in occupancy rates from 90.7% in the prior year quarter to 91.9% due to new lease commencements. These results were partially offset by the impact of foreign exchange.

Core Retail

FFO increased by \$18 million to \$146 million in the current quarter. Excluding the impact of \$10 million of FFO recognized on condominium sales related to ancillary developments in the prior period, FFO increased by \$28 million primarily due to:

- the incremental contributions from BPR on a consolidated basis in the last month of the quarter; partially offset by
- a decline in same-property performance as a result of lower occupancy rates which have decreased to 94.6% in the current quarter compared to 95.4% in the prior year quarter.

LP Investments

FFO decreased from \$88 million to \$74 million primarily due to the absence of FFO from investments sold during the last twelve months, net of assets acquired. This impact was partially offset by same-property growth at existing portfolio assets.

Corporate

BPY's corporate expenses include interest expense, management fees and other costs. Corporate expenses of \$107 million were in line with the prior period as higher interest expense due to a higher average indebtedness was partially offset by lower general and administrative expenses.

ii. Realized Disposition Gains

Realized disposition gains of \$281 million relate to the sale of properties in our core retail and LP investments portfolios. Most significantly, interests in certain core retail properties were sold to joint-venture partners for realized gains of \$246 million. In addition, our sale of a portfolio of self-storage assets resulted in gains of \$36 million.

Prior year disposition gains of \$200 million relate primarily to the sales of three core office properties.

Common Equity

Common equity in our Real Estate segment increased \$246 million to \$17.0 billion as at September 30, 2018 from \$16.7 billion as at December 31, 2017 primarily due to the significant transactions discussed above. In particular:

- the acquisition of our 27.5% interest in a portfolio of operating and development assets in New York added \$1.4 billion to period end common equity in the directly held investments; this was partially offset by
- attribution of a portion of our common equity to non-controlling interests resulting from a dilution loss on the change in our effective ownership of BPY to 53% and the recognition of certain deferred tax balances.



Renewable Power

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Renewable Power segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

		Revenues		FFO		Common Equity	
		2018	2017	2018	2017	2018	2017
AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		Ref.					
Brookfield Renewable Partners ¹	i	\$ 946	\$ 615	\$ 58	\$ 50	\$ 3,625	\$ 4,143
Brookfield Energy Marketing and other ²	ii	(13)	(3)	(10)	(5)	706	801
		\$ 933	\$ 612	\$ 48	\$ 45	\$ 4,331	\$ 4,944

1. Brookfield's interest in BEP consists of 129.7 million redemption-exchange units, 56.1 million Class A limited partnership units and 2.7 million general partnership units; together representing an economic interest of 60% of BEP. Segment revenues at BEP include \$264 million (2017 – \$nil) of revenue from TERP
2. Revenues in Brookfield Energy Marketing Inc. ("BEMI") represent the incremental benefit or deficit on the North American power generated by BEP that is sold through BEMI on a contracted or uncontracted basis

Compared to the prior year quarter, revenues and FFO generated by our renewable power operations increased by \$321 million and \$3 million, respectively. Contributions from recent acquisitions, favorable price increases and cost reductions were partially offset by lower generation across same store assets and the impact of unfavorable foreign exchange.

i. Brookfield Renewable Partners

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

	Actual Generation (GWh) ¹		Long-Term Average (GWh) ¹		FFO	
	2018	2017	2018	2017	2018	2017
FOR THE THREE MONTHS ENDED SEP. 30 (GIGAWATT HOURS AND \$ MILLIONS)						
Hydroelectric.....	4,059	4,583	4,509	4,493	\$ 104	\$ 132
Wind energy.....	997	476	1,187	560	29	18
Solar.....	279	—	260	—	31	—
Storage and other.....	217	139	—	—	11	6
Corporate.....	—	—	—	—	(70)	(65)
Attributable to unitholders.....	5,552	5,198	5,956	5,053	105	91
Non-controlling interests and other ²					(47)	(41)
Brookfield's interest.....					\$ 58	\$ 50

1. Actual generation and long-term average generation are proportionate to BEP; Refer to definition of *Long-term average generation* and *Proportionate basis generation* in Glossary of Terms beginning on page 56
2. Includes incentive distributions paid to Brookfield of \$10 million (2017 – \$7 million) as the general partner of BEP

BEP's FFO for the third quarter of 2018 was \$105 million, of which our share was \$58 million, compared to \$50 million in the prior year quarter. Generation for the quarter totaled 5,552 GWh, 7% below the long-term average ("LTA"), but a 7% increase compared to the prior year quarter due to acquisitions.

Hydroelectric

Hydroelectric FFO decreased by \$28 million to \$104 million due primarily to:

- a \$29 million decrease in North American FFO as generation was 5% below LTA and 13% below the prior year quarter, partially offset by cost reduction initiatives; and
- a \$6 million decrease in Brazil, as development projects and inflation indexation on contracts, which resulted in higher constant currency revenues, were more than offset by the impact of unfavorable foreign exchange; partially offset by
- a \$7 million increase in Colombia due to higher realized prices which are attributable to inflation indexation on existing contracts, renegotiation of contracts at higher prices and higher market prices.

Wind

Wind operations' FFO increased by \$11 million to \$29 million due to the contributions from North American and Brazilian assets acquired in the TERP and TerraForm Global transactions in the fourth quarter of 2017 and a portfolio of European wind assets acquired in the second quarter of 2018, partially offset by unfavorable foreign exchange in Brazil.

Solar

FFO from our solar operations increased by \$31 million over the prior year quarter due to contributions from our acquisitions of TERP and TerraForm Global in the fourth quarter of 2017 as well as the acquisition of a portfolio of European solar assets in the second quarter of 2018.

Storage and Other

Storage and other activities contributed \$11 million in FFO this quarter compared to \$6 million in the prior year quarter. The increase is due to contributions from improved capacity pricing and generation at our pumped storage facility in North America.

Corporate

The corporate FFO deficit increased by \$5 million primarily due to interest expense from new borrowings to fund growth in our businesses.

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, which we do through either contracted or uncontracted sales. In addition, we are entitled to any ancillary revenues, such as capacity payments, renewable energy credits or revenues generated for the peaking ability of plants under contract.

We purchased 1,471 GWh in the current quarter from BEP at \$63 per MWh, compared to 2,051 GWh at \$69 per MWh in the prior year quarter, which we sold through contracted and uncontracted channels for an average of \$56 per MWh compared to \$66 per MWh in the prior year quarter.

As a result of the negative margins realized on the sale of purchased power, BEMI incurred an FFO deficit of \$10 million during the current quarter compared to a deficit of \$5 million in the prior year quarter. The increase in BEMI's FFO deficit this quarter was mainly attributable to lower realized prices on uncontracted generation as well as lower generation sold under long-term contracts.

Common Equity

Common equity in our Renewable Power segment decreased to \$4.3 billion at September 30, 2018 from \$4.9 billion at December 31, 2017, as the impact of FFO and contributions from new acquisitions was more than offset by depreciation and distributions paid to investors as well as unfavorable foreign exchange, particularly the weakening of the Brazilian real against the U.S. dollar. Our renewable power property, plant and equipment is revalued annually and as such common equity in this segment is typically not affected by revaluation items during the first three quarters of the year.



Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Infrastructure segment. We have provided additional detail, where referenced, to explain significant movements from the prior period.

	Ref.	Revenues		FFO		Common Equity	
		2018	2017	2018	2017	2018	2017
AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)							
Brookfield Infrastructure Partners ¹	i	\$ 1,205	\$ 968	\$ 73	\$ 81	\$ 1,815	\$ 2,098
Sustainable resources and other	ii	52	48	7	6	730	736
		<u>\$ 1,257</u>	<u>\$ 1,016</u>	<u>\$ 80</u>	<u>\$ 87</u>	<u>\$ 2,545</u>	<u>\$ 2,834</u>

1. Brookfield's interest in BIP consists of 115.8 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

Revenues generated by our Infrastructure segment increased by \$241 million while FFO decreased by \$7 million compared to the prior year quarter. Revenues and FFO were both positively impacted by organic growth and by recent acquisitions in our utilities business. Overall, FFO decreased as the sale of our Chilean electricity transmission business and the impact of decreasing foreign exchange rates offset the aforementioned contributions.

i. Brookfield Infrastructure Partners

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

	2018	2017
FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		
Utilities.....	\$ 130	\$ 170
Transport	119	136
Energy	59	48
Data infrastructure.....	19	19
Corporate.....	(49)	(72)
Attributable to unitholders	<u>278</u>	<u>301</u>
Non-controlling interests and other ¹	<u>(205)</u>	<u>(220)</u>
Brookfield's interest.....	<u>\$ 73</u>	<u>\$ 81</u>

1. Includes incentive distributions paid to Brookfield of \$34 million (2017 – \$28 million) as the general partner of BIP

BIP's FFO for the third quarter of 2018 was \$278 million, of which our share was \$73 million, compared to \$81 million in the prior year quarter. Decreases in foreign exchange rates, in particular the weakening of the Brazilian real, affected results in the utilities and transport lines of business. Other factors contributing to the current quarter's results are described below.

Utilities

FFO of \$130 million was \$40 million lower than the prior year quarter. In addition to the impact of foreign exchange, the decrease was primarily due to:

- the impact of the sale of our Chilean electricity transmission operation in the first quarter of 2018; and
- issuance of debt by our Brazilian regulated gas transmission business which increased interest expenses; partially offset by
- organic growth of 4% on a constant currency basis and strong connection activity at our U.K. regulated distribution business.

Transport

FFO from our transport operations of \$119 million was \$17 million lower than the prior year quarter. In addition to the impact of foreign exchange, the decrease was due to:

- lower volumes from our mineral customers in our Australian rail business; and
- expiry of a concession related to one of our state roads in Brazil; partially offset by
- 6% organic growth on a constant currency basis from higher tariffs and strong volumes at most of our operations.

Energy

FFO from our energy operations of \$59 million was \$11 million higher than the prior year quarter reflecting higher transport volumes at our North American natural gas transmission business and new customer connections at our North American district energy operations.

Data Infrastructure

Our data infrastructure FFO was consistent with the prior year quarter.

Corporate

The in-period FFO loss was reduced from \$72 million to \$49 million due to:

- lower base management fees as capitalization values were lower compared to the prior period;
- lower interest expense as there were no amounts drawn on the corporate credit facility during the quarter; and
- realized gains recognized on the sale of financial assets.

ii. Sustainable Resources and other

Our sustainable resources and other FFO was comparable to the prior year quarter.

Common Equity

Common equity in our Infrastructure segment decreased to \$2.5 billion as at September 30, 2018 (December 31, 2017—\$2.8 billion), as FFO contributions were more than offset by the impact of unfavorable foreign exchange rates, depreciation and distributions to unitholders.

This equity is primarily our investment in property, plant and equipment and certain concessions, which are recorded as intangible assets. Our PP&E is recorded at fair value and revalued annually while concessions are considered intangible assets under IFRS and therefore recorded at historical cost and amortized over the life of the concession. Accordingly, a smaller portion of our equity is impacted by revaluation compared to our Real Estate and Renewable Power segments, where a larger portion of the balance sheet is subject to revaluations.



Private Equity

Summary of Operating Results

The following table disaggregates segment revenues and our share of FFO and common equity of entities in our Private Equity segment, and summarizes realized disposition gains. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2018	2017	2018	2017	2018	2017
Brookfield Business Partners ¹	i	\$ 9,981	\$ 7,650	\$ 52	\$ 46	\$ 1,982	\$ 2,064
Norbord	ii	—	579	68	62	1,332	1,364
Other investments		29	13	7	9	984	787
Realized disposition gains	iii	—	—	120	20	—	—
		<u>\$ 10,010</u>	<u>\$ 8,242</u>	<u>\$ 247</u>	<u>\$ 137</u>	<u>\$ 4,298</u>	<u>\$ 4,215</u>

1. Brookfield's interest in BBU consists of 63.1 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 68% of BBU

Revenues and FFO before disposition gains increased by \$1.8 billion and \$10 million, respectively, due to organic growth within existing operations and contributions from acquisitions since the prior year quarter, most notably Westinghouse, which provides services to the power generation industry. These contributions were partially offset by the absence of revenues and FFO from asset sales and the deconsolidation of our investment in Norbord, after we sold our controlling stake in the business in the fourth quarter of 2017.

i. Brookfield Business Partners

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

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2018	2017
Business services ¹	\$ 26	\$ 40
Infrastructure services	49	—
Industrial operations	76	22
Energy	35	(5)
Corporate	(16)	(11)
Attributable to unitholders	<u>170</u>	<u>46</u>
Performance fees	(94)	—
Non-controlling interests	(24)	(12)
Segment reallocation and other ²	—	12
Brookfield's interest	<u>\$ 52</u>	<u>\$ 46</u>

1. Effective Q3-2018, the construction services segment was amalgamated with the business services segment; comparative figures were restated to reflect the reclassification

2. Segment reallocation and other refers to disposition gains, net of NCI, included in BBU's operating FFO that we reclassify to realized disposition gains. This allows us to present FFO attributable to unitholders on the same basis as BBU

BBU generated \$170 million of FFO, of which our share was \$52 million, compared to \$46 million in the prior year quarter. Contributions from organic growth in a number of businesses and acquisitions completed since the third quarter of 2017 across the Private Equity segment were partially offset by lower margins at our business services operations, higher management fees due to increases in BBU's capitalization value and performance fees paid as a result of BBU unit price appreciation.

Business Services

Business services' FFO decreased by \$14 million to \$26 million due to:

- lower margins at our construction services and road fuel distribution businesses; and
- the net impact of M&A activity, as the absence of contributions from our recently sold real estate brokerage services business offset contributions from the recent acquisition of our gaming operations business in Ontario.

Previously recognized margins in our construction services business, deferred following the adoption of IFRS 15, will be released to FFO over time, but there is no material impact on FFO in the third quarter of 2018.

Infrastructure Services

Our new infrastructure services segment is comprised solely of Westinghouse, a leading service provider to the power generation industry, acquired on August 1, 2018. Our infrastructure services segment generated FFO of \$49 million for the quarter, which includes:

- contributions from strong margins driven by the mix of work; and
- a one-time recovery on a project settlement; partially offset by
- higher than normal costs associated with the write-up of inventory as part of our purchase price accounting on the acquisition.

We anticipate that results in our infrastructure services segment will fluctuate seasonally, as most revenues are generated during the first and third quarters. In addition, as maintenance and refueling are carried out on an 18-month cycle, performance may also fluctuate cyclically as there will be years when more customers go offline resulting in higher FFO for the business.

Industrial Operations

FFO increased by \$54 million to \$76 million, primarily due to strong pricing at our graphite electrode manufacturing business and our palladium mining operation, partially offset by lower contributions at our Brazilian water treatment business due to the impact of foreign exchange.

Energy

FFO from our energy operations increased by \$40 million to \$35 million. Excluding the prior period impact of a \$16 million one-time disposition loss on the sale of an oil and gas producer in western Canada, FFO increased by \$24 million primarily due to a full quarter of contributions from our marine energy services business, which we acquired on September 25, 2017.

Corporate

The Corporate FFO deficit increased by \$5 million to \$16 million as increases in BBU's unit price and capitalization value led to increased management fees.

BBU accrued performance fees of \$94 million in the third quarter of 2018 due to the increase in BBU's unit price above the previous threshold. We record these fees as income in our Asset Management segment.

ii. Norbord

Our share of Norbord's FFO increased by \$6 million to \$68 million as higher global volumes and strong pricing in Europe were partially offset by a decrease in North American benchmark average oriented strand board prices.

iii. Realized Disposition Gains

Realized disposition gains relate to the partial sell down of our graphite electrode manufacturing business through a secondary offering and a share buyback. The prior period gain relates to the sale of a partial interest in Norbord, partially offset by a loss on the sale of Insignia.

Common Equity

Common equity in our Private Equity segment increased by \$83 million from December 31, 2017 to \$4.3 billion as contributions from new acquisitions and operating performance were partially offset by a reduction in equity on adoption of IFRS 15. The assets held in these operations are recorded at amortized cost, with depreciation recorded on a quarterly basis, with the exception of investments in financial assets, which are carried at fair value based predominantly on quoted prices.



Residential Development

Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the amounts attributable to the two principal operating regions of our wholly owned residential development businesses. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues		FFO		Common Equity	
	2018	2017	2018	2017	2018	2017
North America.....	\$ 516	\$ 455	\$ 40	\$ 33	\$ 1,737	\$ 1,711
Brazil and other.....	124	243	(24)	(57)	841	1,204
	<u>\$ 640</u>	<u>\$ 698</u>	<u>\$ 16</u>	<u>\$ (24)</u>	<u>\$ 2,578</u>	<u>\$ 2,915</u>

North America

FFO from our North American operations of \$40 million was \$7 million higher than the prior year period.

Housing operations contributed \$13 million more FFO than the prior year quarter as:

- U.S. housing operations' gross margin improved by \$10 million, resulting primarily from a nearly 30% increase in the number of home closings due to higher market demand; and
- Canadian housing operations gross margin increased by \$3 million, due largely to a 5% increase in the number of home closings compared to the prior period.

FFO from our land development operations remained consistent with the prior year quarter as higher prices were offset by lower amount of closings.

Increases in FFO from higher margins and sales volumes were partially offset by increases in sales and marketing expenses and higher general and administrative costs.

As at September 30, 2018, we had 87 active housing communities (December 31, 2017 – 81) and 28 active land communities (December 31, 2017 – 28).

Brazil and Other

FFO from our Brazilian operations improved by \$33 million to a loss of \$24 million in the current year quarter due to:

- improved margins compared to the prior year quarter and a one-time gain recognized on sales of completed inventory; and
- the impact of foreign exchange, as the weakening of the Brazilian real against the U.S. dollar reduced the margin deficit.

Our Brazilian operations were affected by the adoption of IFRS 15, the new revenue recognition accounting standard (see Note 2 of the interim consolidated financial statements). Recognition of revenue is delayed until keys are delivered to the client, whereas previously revenue was recognized when the building was completed. There is no material impact associated with releasing previously recognized margins into FFO during the current quarter.

Our focus over the past two years has been delivering projects and selling remaining inventory of units associated with projects launched prior to the economic downturn. During 2016 and 2017, we completed and delivered 57 projects. We continued to sell down existing inventory in the third quarter of 2018; however, overall contributions from these sales were below the level required to cover fixed costs, including marketing expenses in respect of completed development projects.

We began 2018 with 18 projects under construction and as of September 30, 2018, we have 21 projects under construction, of which 20 relate to new projects launched since late 2016 which we believe will command higher margins than older projects.

Common Equity

Common equity was \$2.6 billion at September 30, 2018 (December 31, 2017 – \$2.9 billion) and consists largely of residential development inventory which is carried at the lower of historical cost and net realizable value, notwithstanding the length of time that we may have held these assets and created value through the development process. Equity as at September 30, 2018 is inclusive of a \$15 million adjustment that reduced common equity as at January 1, 2018 due to the adoption of the new revenue recognition standard discussed above.



Corporate Activities

Summary of Operating Results

The following table disaggregates segment revenues, FFO and common equity into the principal assets and liabilities within our corporate operations. We have provided additional detail, where referenced, to explain significant movements from the prior period.

AS AT SEP. 30, 2018 AND DEC. 31, 2017 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues		FFO		Common Equity	
	2018	2017	2018	2017	2018	2017
Cash and financial assets, net.....	\$ 24	\$ 76	\$ 19	\$ 54	\$ 2,341	\$ 2,255
Corporate borrowings	—	—	(83)	(66)	(6,661)	(5,659)
Preferred equity ¹	—	—	—	—	(4,192)	(4,192)
Other corporate investments	30	27	1	—	42	41
Corporate costs and taxes/net working capital.....	—	—	(27)	(17)	107	(338)
	\$ 54	\$ 103	\$ (90)	\$ (29)	\$ (8,363)	\$ (7,893)

1. FFO excludes preferred share distributions of \$38 million (2017 – \$35 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 fair value through other comprehensive income, in which case changes in value are recognized in other comprehensive income. Loans and receivables are typically carried at amortized cost.

As at September 30, 2018 our financial assets consist of:

- \$2.6 billion of cash and other financial assets (December 31, 2017 – \$2.4 billion); partially offset by
- \$239 million (December 31, 2017 – \$183 million) of deposits and other liabilities.

FFO from our cash and financial assets portfolio of \$19 million was \$35 million lower than the prior year quarter due primarily to fair value losses within our portfolio of distressed bonds and lower mark-to-market gains in our credit strategy portfolio, partially offset by realized gains on the settlement of a portfolio of loans.

Corporate borrowings are generally issued with fixed interest rates. 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.

The \$83 million reported through corporate borrowings reflects the interest expense on those borrowings. This increased from the prior year quarter as a result of \$1.0 billion of corporate debt issued in the last twelve months.

Preferred equity is not revalued under IFRS.

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

Net working capital includes accounts receivable, accounts payable, other assets and other liabilities and was in an asset position of \$107 million as at September 30, 2018 (December 31, 2017 – liability of \$338 million). Included within this balance are net deferred income tax assets of \$1.1 billion (December 31, 2017 – \$590 million) which increased following the acquisition of a business during the first quarter of 2018 with net operating losses that can be used to offset future projected net income. FFO includes corporate costs and current taxes, which increased due to continued expansion of the business and current taxes reported during the quarter as opposed to a recovery in the prior year quarter.

The common equity deficit in our Corporate segment increased to \$8.4 billion at September 30, 2018, primarily due to \$1.0 billion of corporate debt issued in the first quarter of 2018, partially offset by an increase in net deferred income tax assets.

PART 4 – CAPITALIZATION AND LIQUIDITY

STRATEGY

Our overall approach is to maintain appropriate levels of liquidity throughout the organization to fund operating, development and investment activities as well as to fund unforeseen requirements. We structure our debt and other financial obligations to provide a stable capitalization that provides attractive leverage to investors, and that withstands business cycles.

We manage our liquidity and capital resources on a group-wide basis, however it is organized into three principal tiers:

- the corporation;
- our principal subsidiaries: BPY, BEP, BIP and BBU; and
- the operating asset level, which includes individual assets, businesses and portfolio investments.

The following are key elements of our capital strategy:

- Structure borrowings to investment-grade levels, or on a path to investment-grade levels for certain newly acquired assets. This enables 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.
- Provide recourse only to the specific assets being financed, without cross-collateralization or parental guarantees. This aims to limit the impact of weak performance by one asset or business group.
- Match the duration of our debt to the underlying leases or contracts and match the currency of our debt to that of the assets such that our remaining exposure is on the net equity of the investment. We will hedge the remaining currency exposure on our net equity, unless it is cost prohibitive to do so.
- Maintain significant liquidity at the corporate level, primarily in the form of cash, financial assets and undrawn credit lines. Ensure our listed issuers are able to finance their operations, including investments and developments (whether direct or through private funds), on a standalone basis without recourse to or reliance on the corporation.

CAPITALIZATION

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

*Consolidated Capitalization*¹ – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. At September 30, 2018, consolidated capitalization increased compared to the prior year largely due to acquisitions, which resulted in additional associated borrowings, working capital balances and non-controlling interests.

Corporate Capitalization – reflects the amount of debt held in the corporate segment and our issued and outstanding common and preferred shares. Corporate debt includes unsecured bonds and, from time to time, draws on revolving credit facilities. At September 30, 2018, 75% of our corporate capitalization was common and preferred equity, which totaled \$26.9 billion (December 31, 2017 – \$28.2 billion).

*Capitalization at Our Share*¹ – reflects our proportionate exposure of debt and equity balances in consolidated entities and our share of the debt and equity in our equity accounted investments. Capitalization at our share is a non-IFRS measure. We present a reconciliation of capitalization at our share to consolidated capitalization in the Glossary of Terms.

1. See definition in Glossary of Terms beginning on page 56

The following table presents our capitalization on a consolidated, corporate and our share basis:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Ref.	Consolidated		Corporate		Our Share	
		2018	2017	2018	2017	2018	2017
Corporate borrowings.....	i	\$ 6,661	\$ 5,659	\$ 6,661	\$ 5,659	\$ 6,661	\$ 5,659
Non-recourse borrowings							
Property-specific borrowings.....	i	91,551	63,721	—	—	34,758	30,210
Subsidiary borrowings.....	i	8,762	9,009	—	—	5,459	5,711
		106,974	78,389	6,661	5,659	46,878	41,580
Accounts payable and other.....		22,546	17,965	2,015	2,140	10,452	10,880
Deferred income tax liabilities.....		11,550	11,409	178	160	4,357	5,204
Subsidiary equity obligations.....		3,847	3,661	—	—	1,653	1,648
Liabilities associated with assets classified as held for sale.....		785	1,424	—	—	210	703
Equity							
Non-controlling interests.....		61,376	51,628	—	—	—	—
Preferred equity.....	ii	4,192	4,192	4,192	4,192	4,192	4,192
Common equity.....	iii	22,691	24,052	22,691	24,052	22,691	24,052
		88,259	79,872	26,883	28,244	26,883	28,244
Total capitalization.....		\$ 233,961	\$ 192,720	\$ 35,737	\$ 36,203	\$ 90,433	\$ 88,259

i. Borrowings

Corporate Borrowings

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2018	2017	2018	2017	2018	2017
Term debt.....	4.6%	4.6%	10	10	\$ 6,518	\$ 5,594
Revolving facilities.....	2.0%	1.6%	4	4	184	103
Deferred financing costs.....	n/a	n/a	n/a	n/a	(41)	(38)
Total.....					\$ 6,661	\$ 5,659

As at September 30, 2018, corporate borrowings included term debt of \$6.5 billion (December 31, 2017 – \$5.6 billion) which had an average term to maturity of 10 years (December 31, 2017 – 10 years). Term debt consists of public bonds, all of which are fixed rate and have maturities ranging from April 2019 until September 2047. These financings provide an important source of long-term capital and are appropriately matched to our long-term asset profile.

The increase in term debt compared to the prior year is due to the issuance of \$650 million of 3.9% notes and \$350 million of 4.7% notes with maturities of 2028 and 2047, respectively in the first quarter of 2018. This is partially offset by \$80 million of foreign currency depreciation.

We also had \$184 million of commercial paper or bank borrowings outstanding at September 30, 2018 (December 31, 2017 – \$103 million). Commercial paper and bank borrowings are pursuant to, or backed by, \$1.9 billion of committed revolving term credit facilities with terms ranging from one to five years. As at September 30, 2018, \$73 million of the facilities were utilized for letters of credit (December 31, 2017 – \$79 million).

Property-Specific Borrowings

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

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2018	2017	2018	2017	2018	2017
Real estate	4.5%	4.4%	4	4	\$ 55,228	\$ 37,235
Renewable power	5.4%	5.9%	10	9	14,542	14,230
Infrastructure	5.3%	4.7%	7	8	10,599	9,010
Private equity and other	6.1%	6.7%	6	6	10,853	2,898
Residential development	8.6%	9.6%	1	2	329	348
Total	5.0%	4.9%	6	6	\$ 91,551	\$ 63,721

Property-specific borrowings have increased by \$27.8 billion since December 31, 2017. The additional borrowings in our real estate operations are primarily related to the consolidation of GGP following privatization and the acquisitions of an extended-stay hospitality business and a U.K. student housing business. The additional borrowings in our infrastructure operations are primarily related to additional financings at our Brazilian regulated gas transmission business. The additional borrowings in our private equity operations are primarily related to the acquisition of a power generation industry service provider and additional financings at our graphite electrode manufacturing business. In addition to acquisitions and the financings described above, the remainder of the increase in consolidated borrowings is driven by drawings on new or existing fund subscription facilities and additional debt assumed for growth capital expenditures. These increases were partially offset by asset sales across the business.

Subsidiary Borrowings

We endeavor to capitalize our principal subsidiaries to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the corporation.

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2018	2017	2018	2017	2018	2017
Real estate	4.3%	3.3%	2	2	\$ 2,476	\$ 3,214
Renewable power	4.1%	4.5%	5	6	2,619	1,665
Infrastructure	3.6%	3.1%	5	4	1,663	2,102
Private equity	4.1%	3.9%	1	2	49	380
Residential development	6.0%	6.3%	4	5	1,955	1,648
Total	4.5%	4.1%	4	4	\$ 8,762	\$ 9,009

Subsidiary borrowings generally have no recourse to the corporation but are recourse to its principal subsidiaries (primarily BPY, BEP, BIP, BBU and Brookfield Residential). Subsidiary borrowings decreased by \$247 million as term debt issuances were more than offset as our subsidiaries repaid amounts drawn on their credit facilities with proceeds from our capital recycling program.

Fixed and Floating Interest Rate Exposure

The majority of our borrowings are fixed rate, long-term financings. Accordingly, changes in interest rates are typically limited to the impact of refinancing borrowings at prevailing market rates or changes in the level of debt as a result of acquisitions and dispositions.

The following table presents the fixed and floating rates of interest expense:

AS AT SEP. 30, 2018 AND DEC. 31, 2017	Fixed Rate				Floating Rate			
	2018		2017		2018		2017	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings	4.6%	\$ 6,477	4.6%	\$ 5,556	2.0%	\$ 184	1.6%	\$ 103
Property-specific borrowings..	4.9%	37,962	5.0%	33,106	5.0%	53,589	4.8%	30,615
Subsidiary borrowings	4.8%	5,435	4.8%	4,800	4.0%	3,327	3.2%	4,209
Total	4.9%	\$ 49,874	5.0%	\$ 43,462	4.9%	\$ 57,100	4.6%	\$ 34,927

The average floating rate associated with our property-specific borrowings was impacted by higher underlying floating rate indices in the first nine months of 2018.

From time to time, the businesses enter into interest rate contracts to swap their floating rate debt to fixed rate. As at September 30, 2018, 70% of our share of debt outstanding, reflecting swaps, was fixed rate.

ii. 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 SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Term	Average Rate			
		2018	2017	2018	2017
Fixed rate-reset	Perpetual	4.2%	4.2%	\$ 2,912	\$ 2,912
Fixed rate	Perpetual	4.8%	4.8%	749	749
Floating rate	Perpetual	2.7%	2.3%	531	531
Total		4.1%	4.1%	\$ 4,192	\$ 4,192

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically five years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at September 30, 2018 was 284 basis points.

iii. Common Equity

Issued and Outstanding Shares

Changes in the number of issued and outstanding common shares during the periods are as follows:

AS AT AND FOR THE PERIODS ENDED SEP. 30, 2018 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Outstanding at beginning of period	957.5	958.7	958.8	958.2
Issued (repurchased)				
Repurchases	—	—	(5.2)	(2.1)
Long-term share ownership plans ¹	1.4	0.5	5.2	3.0
Dividend reinvestment plan and others	—	0.1	0.1	0.2
Outstanding at end of period	958.9	959.3	958.9	959.3
Unexercised options and other share-based plans ¹	46.1	48.1	46.1	48.1
Total diluted shares at end of period	1,005.0	1,007.4	1,005.0	1,007.4

1. Includes management share option plan and restricted stock plan

The company holds 34.0 million Class A shares (December 31, 2017 – 30.6 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 6.9 million (December 31, 2017 – 9.2 million) shares issuable in respect of these plans based on the market value of the Class A shares at September 30, 2018 and December 31, 2017, resulting in a net reduction of 27.1 million (December 31, 2017 – 21.4 million) diluted shares outstanding.

During the third quarter of 2018, 1.5 million options were exercised, all of which were exercised on a net-settled basis, resulting in the cancellation of 0.8 million vested options. The company also issued 0.5 million Class A shares under the Escrowed Stock Plan program.

The cash value of unexercised options was \$1.1 billion as at September 30, 2018 (December 31, 2017 – \$994 million) based on the proceeds that would be paid on exercise of the options.

As of November 13, 2018, the corporation had outstanding 958,507,999 Class A shares and 85,120 Class B shares. Refer to Note 12 of the interim consolidated financial statements for additional information on equity.

LIQUIDITY

Capital Requirements

On a consolidated basis, our two largest normal course capital requirements are the funding of acquisitions and debt maturities. As an asset manager, most of our acquisitions are completed by the private funds or listed partnerships that we manage. We endeavor to structure these entities so that they are predominantly self-funding, preferably on an investment-grade basis, and in almost all circumstances do not rely on financial support from the corporation.

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 our listed partnerships. In the case of our real estate, infrastructure and private equity funds, these commitments are expected to be funded by BPY, BEP, BIP and BBU. In the case of listed partnerships, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

We 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.

Core Liquidity¹

Our primary sources of liquidity, which we refer to as core liquidity, consist of:

- Cash and financial assets, net of deposits and other associated liabilities; and
- Undrawn committed credit facilities at the corporate and listed partnership level.

We include our principal subsidiaries BPY, BEP, BIP and BBU in assessing our overall liquidity because of their role in funding acquisitions both directly and through our private funds. The following table presents core liquidity on a corporate and operating segment basis:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	Corporate	Real Estate	Renewable Power	Infrastructure	Private Equity	Total 2018	2017
Cash and financial assets, net	\$ 2,341	\$ 48	\$ 425	\$ 718	\$ 736	\$ 4,268	\$ 3,218
Undrawn committed credit facilities ...	1,678	1,705	627	1,923	825	6,758	4,839
Core liquidity	4,019	1,753	1,052	2,641	1,561	11,026	8,057
Uncalled private fund commitments....	—	12,743	2,236	4,754	1,070	20,803	18,591
Total liquidity.....	\$ 4,019	\$ 14,496	\$ 3,288	\$ 7,395	\$ 2,631	\$ 31,829	\$ 26,648

We continue to maintain elevated liquidity levels along with client commitments to our private funds, which totaled \$20.8 billion at the end of the period, as we continue to pursue a number of attractive investment opportunities.

1. See definition in Glossary of Terms beginning on page 56

Corporate Liquidity

As at September 30, 2018, core liquidity at the corporate level was \$4.0 billion, consisting of \$2.3 billion in cash and financial assets, net of deposits and other liabilities, and \$1.7 billion in undrawn credit facilities. Corporate level liquidity is readily available for use without any material tax consequences. We utilize this liquidity to support our asset management business which includes supporting the activities of our listed issuers and private funds, as well as seeding new investment products.

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 on the following 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. We also receive proceeds in the form of realized carried interest from asset sales within private funds and from time to time from the sale of directly held assets.

During the third quarter of 2018, we earned \$320 million of fee related earnings. We received \$464 million in distributions from our listed subsidiaries in the quarter and have the ability to distribute surplus cash flow of controlled, privately held investments. In addition, income generated by our financial asset portfolio was \$19 million. Interest expense and preferred share distributions totaled \$83 million and \$38 million, respectively, and corporate operating expenses, cash taxes and other investment income totaled \$26 million. We paid \$144 million in cash dividends on our common equity for the three months ended September 30, 2018.

Earnings and distributions received by the corporation are available for distribution or reinvestment and are as follows:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended	Nine Months Ended
Asset management		
Fee revenues.....	\$ 463	\$ 1,315
Direct costs.....	(143)	(413)
Fee related earnings	320	902
Realized carried interest.....	—	22
Asset management FFO.....	320	924
Invested capital		
Cash distributions received from listed investments ¹	464	1,151
Capitalization, net		
Financial asset earnings	19	55
Corporate costs, cash taxes and other corporate investments	(26)	(103)
Corporate interest expense	(83)	(241)
Corporate FFO	(90)	(289)
Preferred share dividends.....	(38)	(114)
	(128)	(403)
Cash available for distribution/reinvestment ¹	\$ 656	\$ 1,672

1. See definition in Glossary of Terms beginning on page 56

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:

AS AT AND FOR THE PERIODS ENDED SEP. 30, 2018 (MILLIONS, EXCEPT OWNERSHIP AND PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit ¹	Quoted Value ²	Distributions (Current Rate) ³	Distributions (Actual LTM) ³
Distributions from listed investments						
Brookfield Property Partners	52.7%	513.7	\$ 1.26	\$11,497	\$ 691	\$ 699
Brookfield Renewable Partners	60.3%	188.4	1.96	5,697	369	366
Brookfield Infrastructure Partners	29.9%	117.7	1.88	4,693	221	216
Brookfield Business Partners	68.0%	87.9	0.25	4,023	22	22
Norbord	40.1%	34.8	1.86	1,154	65	167
Acadian ⁴	44.9%	7.5	0.88	107	7	8
					1,375	1,478
Financial assets and other⁵	Various	Various	Various	2,963	188	116
Total					\$ 1,563	\$ 1,594

1. Based on current distribution policies

2. BPY's quoted value includes \$765 million of preferred shares. Fully diluted ownership is 50.1%, assuming conversion of convertible preferred shares held by a third party

3. Distributions (current rate) are calculated by multiplying units held as at September 30, 2018 by distributions per unit. BPY's current rate and actual LTM distributions include \$73 million and \$44 million, respectively, of preferred share dividends received by the corporation

4. See definition in Glossary of Terms beginning on page 56

5. Includes cash and cash equivalents, financial assets net of deposits and other listed private equity investments

REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

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

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Operating activities.....	\$ 476	\$ 1,176	\$ 2,671	\$ 2,874
Financing activities.....	6,353	1,360	10,179	7,974
Investing activities.....	(4,851)	(2,391)	(9,926)	(10,610)
Change in cash and cash equivalents.....	\$ 1,978	\$ 145	\$ 2,924	\$ 238

This statement reflects activities within our consolidated operations and therefore excludes activities within non-consolidated entities.

Operating Activities

Cash flows from operating activities totaled \$476 million in the third quarter of 2018, a \$700 million decrease from the third quarter of 2017. Operating cash flows prior to non-cash working capital and residential inventory were \$1.3 billion during the third quarter of 2018, \$3 million higher than 2017 due to the benefits of same-store growth from our existing operations and the contributions from assets acquired during the last twelve months, partially offset by the negative impact of foreign currency translation.

Financing Activities

The company generated \$6.4 billion of cash flows from financing activities during the third quarter of 2018, as compared to \$1.4 billion in the third quarter of 2017. Our subsidiaries issued \$9.7 billion (2017 – \$4.2 billion) and repaid \$6.3 billion (2017 – \$4.1 billion) of property-specific and subsidiary borrowings, for a net issuance of \$3.4 billion (2017 – \$31 million) during the quarter. We raised \$2.4 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions, arranged \$1.2 billion of short-term borrowings backed by private fund commitments, and returned \$735 million to our investors in the form of either distributions or return of capital. Most of the activity related to acquisitions across our various operating segments.

Investing Activities

During the third quarter of 2018, we invested \$7.9 billion and generated proceeds of \$3.2 billion from dispositions for net cash deployed in investing activities of \$4.7 billion. This compares to net cash deployed of \$2.4 billion during the same period in 2017. We paid cash of \$4.7 billion to acquire consolidated subsidiaries within our real estate, infrastructure and private equity operations, as well as \$291 million of equity accounted investments during the quarter. Refer to our Acquisitions of Consolidated Entities in Note 4 of the interim consolidated financial statements for further details. We continued to acquire and sell financial assets, which represent a net inflow of \$176 million, relating to investments in debt and equity securities as well as contract assets associated with managing currency risk. Investing activities in the prior year period include the acquisition of a fuel marketing business in our Private Equity segment and certain wind and pump storage businesses in our Renewable Power segment.

PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Overview

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”).

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

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

In making 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 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. As we update the fair values of our investment property portfolios quarterly, with gains reflected in net income, we discuss judgments and estimates relating to the key valuation metrics below.

For further reference on accounting policies, including new and revised standards issued by the IASB, judgments and estimates, see our significant accounting policies contained in Note 2 of this interim report and Note 2 of the December 31, 2017 consolidated financial statements.

Adoption of New Accounting Standards

We adopted IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”) and IFRS 9 *Financial Instruments* (“IFRS 9”) effective January 1, 2018.

The adoption of IFRS 15, which applies to nearly all contracts with customers and specifies how and when revenue should be recognized, required the application of significant critical estimates and judgments. We adopted the standard using the modified retrospective approach in which a cumulative catch-up adjustment was recorded through opening equity on January 1, 2018 as if the standard had always been in effect and whereby comparative periods were not restated. The adoption of IFRS 15 resulted in a \$280 million reduction in opening equity, attributable primarily to our construction services business in the Private Equity segment. Under IFRS 15, revenue from construction services contracts will continue to be recognized over time; however, a higher threshold of probability must be achieved prior to recognizing revenue from variable consideration such as incentives and claims and variations resulting from contract modifications. Under the superseded standards, revenue was recognized when it was probable that work performed would result in revenue; under IFRS 15, revenue is recognized when it is highly probable that a significant reversal of revenue will not occur for these modifications.

IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities and includes new guidance which aligns 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 allows more hedging strategies that are used for risk management purposes to qualify for hedge accounting, introducing greater judgment to assess the effectiveness of a hedging relationship. We adopted the standard on January 1, 2018 using transitional provisions permitting us to not restate prior period comparative information, recording an insignificant adjustment to opening equity.

Refer to Note 2(b) of the interim consolidated financial statements for the impact of the adoption and an overview of the new accounting policies.

Investment Properties

We classify the majority of the property assets within our Real Estate segment as investment properties. Valuations, which are prepared at the investment property level, are updated at each balance sheet date with gains or losses recognized in net income. Please refer to Part 5 of Management’s Discussion and Analysis in the December 31, 2017 Annual Report for additional information about our methodologies, processes and controls.

The valuations are most sensitive to changes in cash flows, which include assumptions relating to lease renewal probabilities, downtime, capital expenditures, future leasing rates and associated leasing costs; discount rates; and terminal capitalization rates. The following table presents the key valuation metrics of our real estate assets at September 30, 2018 and December 31, 2017:

AS AT SEP. 30, 2018 AND DEC. 31, 2017	Core Office		Core Retail ¹		LP Investments and Other		Weighted Average	
	2018	2017	2018	2017	2018	2017	2018	2017
Discount rate	6.9%	6.9%	7.1%	n/a	7.4%	7.3%	7.2%	7.1%
Terminal capitalization rate	5.7%	5.8%	6.0%	n/a	6.7%	7.0%	6.1%	6.2%
Investment horizon (years)	11	11	10	n/a	8	9	10	10

1. After obtaining control of GGP on August 28, 2018, we are now consolidating multiple investment properties in our core retail operations. Please see Note 4 of the interim consolidated financial statements for additional information

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 are diversified by asset class, geography and market, to materially affect the methodologies or assumptions used 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 of 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 (e.g. 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 consolidated investment properties as at September 30, 2018 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 SEP. 30, 2018 (MILLIONS)	Fair Value		Sensitivity	
Core office				
United States	\$	15,253	\$	897
Canada		4,348		259
Australia		2,892		154
Europe		1,339		35
Brazil		302		—
Core Retail		18,030		612
LP investments and other				
LP Investments – Office		8,408		283
LP Investments – Retail		3,499		147
Industrial		2,800		171
Multifamily		4,107		203
Triple Net Lease		4,974		175
Self-storage		878		28
Student Housing		2,260		93
Manufactured Housing		2,356		103
Mixed-Use		2,511		123
Other investment properties		5,260		190
Total	\$	79,217	\$	3,473

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.

Intercompany revenues and expenses between Brookfield and its subsidiaries, such as asset management fees, are eliminated in our Consolidated Statements of Operations; however, these items affect 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 revenues 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 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 our 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, is instead included within equity accounted income.

Certain of our consolidated subsidiaries and equity accounted investments do not use 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.

MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS

Internal Control Over Financial Reporting

No changes were made in our internal control over financial reporting during the quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 consolidated financial statements included in this interim report 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 September 30, 2018 and of the development and performance of the business for the nine months then ended.

GLOSSARY OF TERMS

The below summarizes certain terms relating to our business that are made throughout the MD&A and it defines IFRS performance measures, non-IFRS performance measures and key operating measures that we use to analyze and discuss our results.

References

References to the “**corporation**” represent Brookfield Asset Management Inc. References to “**Brookfield**,” “**BAM**,” “**us**,” “**we**,” “**our**” or the “**company**” refer to the corporation and its direct and indirect subsidiaries and consolidated entities.

We refer to our **shareholders** as investors in the corporation and we refer to **investors** as investors of our private funds and listed issuers.

We use **Asset manager** to refer to our asset management segment which offers a variety of investment products to our investors:

- We have 40 active funds across major asset classes; real estate, infrastructure/renewable power and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core open-end funds. We refer to these funds as our **Private Funds**.
- We refer to BPY, BEP, BIP and BBU as our **listed issuers** or **listed partnerships**.
- We refer to our public securities group as **public securities**. This group manages fee bearing capital through numerous funds and separately managed accounts, focused on fixed income and equity securities.

Throughout the MD&A and consolidated financial statements, the following operating companies, joint ventures and associates, and their respective subsidiaries, will be referenced as follows:

- **Acadian** – Acadian Timber Corp.
- **BPR** – Brookfield Property REIT Inc.
- **BBU** – Brookfield Business Partners L.P.
- **Canary Wharf** – Canary Wharf Group plc
- **BEMI** – Brookfield Energy Marketing Inc.
- **GGP** – GGP Inc.
- **BEP** – Brookfield Renewable Partners L.P.
- **Norbord** – Norbord Inc.
- **BIP** – Brookfield Infrastructure Partners L.P.
- **TerraForm Power (“TERP”)** – TerraForm Power, Inc.
- **BPY** – Brookfield Property Partners L.P.

Performance Measures

Definitions of performance measures, including non-IFRS measures and operating measures, are presented below in alphabetical order. We have specifically identified those measures which are non-IFRS measures; the remainder are IFRS measures or operating measures.

Assets under management (“AUM”) refers to the total fair value of assets that we manage, on a gross asset value basis, including assets for which we earn management fees and those for which we do not. As of September 30, 2018, AUM is calculated as follows: (i) for investments that Brookfield consolidates for accounting purposes or actively manages, including investments of which Brookfield or a controlled investment vehicle is the largest shareholder or the primary operator or manager, at 100% of the investment’s total assets on a fair value basis; and (ii) for all other investments, at Brookfield’s or its controlled investment vehicle’s, as applicable, proportionate share of the investment’s total assets on a fair value basis. Prior to September 30, 2018, AUM was reported at total IFRS carrying values which included certain assets at fair value and certain other assets at an amortized cost value. Furthermore, in addition to Brookfield’s methodology for determining the AUM presented possibly differing from those employed by other alternative asset managers, Brookfield’s AUM presented herein may differ from Brookfield’s AUM reflected in its public filings and/or its Form ADV and Form PF.

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 investors only and are earned on invested and/or uninvested fund capital, depending on the stage of the fund life. Base fees from listed partnerships are earned on the total capitalization of the listed partnerships, which includes our investment. Base fees for BPY, BEP and TERP include a quarterly fixed fee amount of \$12.5 million, \$5 million and \$3 million, respectively. BPY and BEP each pay additional fees of 1.25% on the increase in capitalization above their initial capitalization of \$11.5 billion and \$8 billion, respectively. TERP pays an additional fee of 1.25% on the increase above initial per unit price at the time of acquisition. Base fees for BPR, BIP and BBU are 1.25% of total capitalization. BPR capital is subject to a 12-month fee waiver which will expire at the end of August 2019.

Capitalization at “our share” is a non-IFRS measure and presents our share of debt and other obligations based on our ownership percentage of the related investments. We use this measure to provide insight into the extent to which our capital is leveraged in each investment, which is an important component of enhancing shareholders returns. This may differ from our consolidated leverage because of the varying levels of ownership that we have in consolidated and equity accounted investment, that in turn have different degrees of leverage. We also use capitalization at our share to make financial risk management decisions at the corporation.

A reconciliation of consolidated capitalization to capitalization at our share is provided below:

AS AT SEP. 30, 2018 AND DEC. 31, 2017 (MILLIONS)	<u>2018</u>	<u>2017</u>
Total consolidated capitalization.....	\$ 233,961	\$ 192,720
Add: our share of borrowings of investments in associates.....	9,106	10,875
Less: non-controlling interests’ share of liabilities		
Non-recourse borrowings.....	(69,202)	(47,684)
Liabilities associated with assets held for sale.....	(575)	(606)
Accounts payable and other.....	(12,094)	(7,200)
Deferred tax liabilities.....	(7,193)	(6,205)
Subsidiary equity obligations.....	(2,194)	(2,013)
Non-controlling interests.....	(61,376)	(51,628)
Total capitalization at our share.....	<u>\$ 90,433</u>	<u>\$ 88,259</u>

Carried interest is a performance fee arrangement whereby we receive a percentage of investment returns, defined as total fund profit net of fees and expenses, generated within a private fund based on a contractual formula. We are eligible to earn carried interest once returns exceed performance hurdles, ranging from 6% to 10% (compounded annually). Once the fund has achieved the performance hurdles, we earn an accelerated percentage of the additional fund profit until we have earned the percentage of total fund profit net of fees and expenses, to which we are entitled, ranging from 10% to 20%.

Accumulated unrealized carried interest is a non-IFRS measure that is determined based on cumulative fund performance to date. At the end of each reporting period, the company calculates the carried interest that would be due to the company for each fund, pursuant to the fund agreements, as if the fair value of the underlying investments were realized as of such date, irrespective of whether such amounts have actually been realized. We use this measure to provide insight into our potential to realize carried interest in the future. Details of components of our accumulated unrealized carried interest is included in the definition of unrealized carried interest on page 58.

Realized carried interest represents our share of investment returns based on realized gains within a private fund. Realized carried interest earned is recognized when an underlying investment is profitably disposed of and the fund's cumulative returns are in excess of preferred returns, in accordance with the respective terms set out in the fund's governing agreements, and when the probability of clawback is remote. We include realized carried interest when determining our Asset Management segment results within our consolidated financial statements.

Realized carried interest, net is after direct costs, which include employee expenses and cash taxes.

Unrealized carried interest is a non-IFRS measure and is the change in accumulated unrealized carried interest from prior period and represents the amount of carried interest generated during the period. We use this measure to provide insight into the value our investments have created in the period.

The following table identifies the inputs of accumulated carried interest to arrive at unrealized carried interest generated in the period:

AS AT SEP. 30 (MILLIONS, EXCEPT MULTIPLES AND PERCENTAGES)	Adjusted Carry Eligible Capital ¹	Adjusted Multiple of Capital ²	Fund Target Carried Interest ³	Current Carried Interest ⁴
2018				
Real Estate.....	\$ 9,063	1.8x	20%	17%
Infrastructure	10,019	1.4x	20%	16%
Private Equity	2,304	2.5x	20%	20%
	\$ 21,386			
2017				
Real Estate.....	\$ 8,514	1.8x	20%	13%
Infrastructure	8,867	1.4x	20%	14%
Private Equity	1,861	1.6x	20%	18%
	\$ 19,242			

1. Excludes uncalled private fund commitments, co-investment capital and funds that have not met their preferred return
2. Adjusted Multiple of Capital represents the ratio of total distributions plus estimates of remaining value to the equity invested, and reflects performance net of fund management fees and expenses, before carried interest. Our core, credit and value add funds pay management fees of 0.90 – 1.50% and our opportunistic and private equity funds pay fees of 1.50 – 2.00%. Funds typically incur fund expenses of approximately 0.35% of carry eligible capital annually
3. Fund target carried interest percentage is the target carry average of the funds within adjusted carry eligible capital as at each period end
4. When a fund has achieved its preferred return, we earn an accelerated percentage of the additional fund profit until we have earned the fund target carried interest percentage. Funds in their early stage of earning carry will not yet have earned the full percentage of total fund profit to which we are entitled

The following table summarizes the unrealized carried interest generated in the current and prior year periods:

	Accumulated Unrealized Carried Interest			Accumulated Unrealized Carried Interest		
	Sep. 30, 2018	Jun. 30, 2018	Change	Sep. 30, 2017	Jun. 30, 2017	Change
Real Estate	\$ 1,169	\$ 1,155	\$ 14	\$ 860	\$ 666	\$ 194
Infrastructure	708	683	25	506	479	27
Private Equity	735	689	46	195	74	121
Accumulated unrealized carried interest	2,612	2,527	85	1,561	1,219	342
Less: associated expenses ¹	(803)	(778)	(25)	(479)	(384)	(95)
Accumulated unrealized carry, net	\$ 1,809	\$ 1,749	60	\$ 1,082	\$ 835	247
Add: realized carried interest, net			—			25
Unrealized carried interest, net			\$ 60			\$ 272

1. Carried interest generated is subject to taxes and long-term incentive expenses to investment professionals. These expenses are typically 30 – 35% of carried interest generated

Unrealized carried interest, net is after direct costs, which include employee expenses and taxes.

Carry eligible capital represents the capital committed, pledged or invested in the private funds that we manage and which entitle us to earn carried interest. Carry eligible capital includes both invested and uninvested (i.e. uncalled) private fund amounts as well as those amounts invested directly by investors (co-investments) if those entitle us to earn carried interest. We believe this measure is useful to investors as it provides additional insight into the capital base upon which we have potential to earn carried interest once minimum investment returns are sufficiently assured.

Adjusted carry eligible capital excludes uncalled fund commitments and funds that have not yet reached their preferred return, as well as co-investments and separately managed accounts that are subject to lower carry interest than our standard funds.

A reconciliation from carry eligible capital to adjusted carry eligible capital is provided below:

AS AT SEP. 30 (MILLIONS)	2018	2017
Carry eligible capital	\$ 49,602	\$ 40,676
Less:		
Uncalled private fund commitments	(20,131)	(16,628)
Co-investments and other	(3,762)	(1,618)
Funds not yet at target preferred return	(4,323)	(3,188)
Adjusted carry eligible capital	\$ 21,386	\$ 19,242

Cash available for distribution/reinvestment is a non-IFRS measure and is the sum of our Asset Management and distributions received from our listed investments, net of Corporate FFO and preferred share dividends. This provides insight into earnings received by the corporation that are available for distribution to common shareholders or to be reinvested into the business. The components of cash available for distribution/reinvestment are provided below:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2018	2017
Asset management FFO	\$ 320	\$ 211
Dividends received from listed issuers	464	329
Corporate activities FFO		
Financial assets earnings	19	54
Corporate costs, cash taxes and other corporate investments	(26)	(17)
Corporate interest expense	(83)	(66)
	(90)	(29)
Preferred share dividends	(38)	(35)
Cash available for distribution/reinvestment	\$ 656	\$ 476

Cash distributions received from listed investments represent dividends paid to the company by our listed issuers, Norbord and Acadian based on their publicly disclosed distribution policies and our ownership levels.

Consolidated capitalization reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements. Our consolidated capitalization includes 100% of the debt of the consolidated entities even though in many 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 accounted for following the equity method, such as our investments in Canary Wharf and several of our infrastructure businesses.

Core liquidity represents the amount of cash, financial assets and undrawn credit lines at the corporation and the listed partnerships. We use core liquidity as a key measure of our ability to fund future transactions and capitalize quickly on opportunities as they arise. Our core liquidity also allows us to backstop the transactions of our various businesses as necessary and fund the development of new activities that are not yet suitable for our investors.

Corporate capitalization represents the amount of debt issued by the corporation and our issued and outstanding common and preferred shares.

Economic ownership interest represents the company's proportionate equity interest in our listed issuers 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, as well as any units or shares issued in subsidiaries that are exchangeable for units in our listed issuers ("exchange units"). REUs and exchange units share the same economic attributes as 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, general partnership units and exchange 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.

Fee bearing capital represents the capital committed, pledged or invested in the listed partnerships, private funds and public securities that we manage which entitles us to earn fee revenues. Fee bearing capital includes both invested and uninvested (i.e. uncalled) amounts, as well as amounts invested directly by investors (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, which include employee expenses and professional fees as well as business related technology costs, other shared services and taxes. We use this measure to provide additional insight into the operating profitability of our asset management activities.

Fee revenues include base management fees, incentive distributions, performance fees and transaction fees presented within our Asset Management segment. Many of these items do not appear in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation.

Funds from operations ("FFO") is a key measure of our financial performance. We use FFO to assess operating results and the performance of our businesses on a segmented basis. While we use segment FFO as our segment measure of profit and loss (see Note 3 to our consolidated financial statements), the sum of FFO for all our segments, or total FFO, is a non-IFRS measure. The following table reconciles total FFO to net income:

	Three Months Ended				Nine Months Ended			
	Total		Per Share		Total		Per Share	
FOR THE PERIODS ENDED SEP. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2018	2017	2018	2017	2018	2017	2018	2017
Net income	\$ 941	\$ 992	\$ 0.92	\$ 0.98	\$ 4,460	\$ 2,468	\$ 4.45	\$ 2.41
Realized disposition gains recorded as fair value changes or equity	387	232	0.40	0.22	902	883	0.92	0.90
Non-controlling interest in FFO	(1,415)	(1,073)	(1.46)	(1.09)	(4,171)	(3,105)	(4.27)	(3.17)
Financial statement components not included in FFO								
Equity accounted fair value changes and other non-FFO items	446	(15)	0.46	(0.02)	1,062	348	1.09	0.36
Fair value changes	(132)	(132)	(0.13)	(0.13)	(1,537)	(141)	(1.57)	(0.14)
Depreciation and amortization	833	643	0.85	0.66	2,175	1,755	2.22	1.79
Deferred income taxes	25	162	0.03	0.17	154	301	0.16	0.31
Total FFO	<u>\$ 1,085</u>	<u>\$ 809</u>	<u>\$ 1.07</u>	<u>\$ 0.79</u>	<u>\$ 3,045</u>	<u>\$ 2,509</u>	<u>\$ 3.00</u>	<u>\$ 2.46</u>

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 and 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 equity 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 increases 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. In addition, the depreciated cost base of our assets is reflected in the ultimate realized disposition gain or loss on disposal. 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 do not use FFO as a measure of cash generated from our operations.

Incentive distributions are determined by contractual arrangements and are paid to us by BPY, BEP, BIP and TERP and represent a portion of distributions paid by listed partnerships above a predetermined hurdle. Incentive distributions are accrued on the record date of the associated distributions of the entity.

A summary of our distribution hurdles and current distribution rates is as follows:

AS AT SEP. 30, 2018	Current Distribution Rate ¹	Distribution Hurdles (per unit)	Incentive Distributions
Brookfield Infrastructure Partners (BIP)	\$ 1.88	\$ 0.81 / 0.88	15% / 25%
Brookfield Renewable Partners (BEP)	1.96	1.50 / 1.69	15% / 25%
Brookfield Property Partners (BPY)	1.26	1.10 / 1.20	15% / 25%
TerraForm Power (TERP)	—	0.93 / 1.05	15% / 25%

1. Annualized rate based on September 30, 2018 distribution rates

Invested capital consists of investments in our listed issuers, other listed securities and unlisted investments. Our invested capital provides us with FFO and cash distributions.

Long-term average generation ("LTA") is used in our Renewable Power segment and is determined based on expected electrical generation from its 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, which vary from one period to the next.

Performance fees are paid to us when we exceed predetermined investment returns within BBU and on certain public securities portfolios. BBU performance fees are accrued quarterly based on the volume-weighted average increase in BBU unit price, whereas performance fees within public security funds are typically determined on an annual basis. Performance fees are not subject to clawback.

Proportionate basis generation is used in our Renewable Power segment to describe the total amount of power generated by facilities held by BEP, at BEP's respective economic ownership interest percentage.

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 represents the earnings contribution from assets or investments held throughout both the current and prior reporting period on a constant ownership basis. We utilize same-store analysis to illustrate the growth in earnings excluding the impact of acquisitions or dispositions.