

# Management’s Discussion and Analysis

## ORGANIZATION OF 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 “perpetual affiliates” Brookfield Property Partners L.P., Brookfield Property REIT Inc., Brookfield Renewable Partners L.P., Brookfield Renewable Corporation, Brookfield Infrastructure Partners L.P., Brookfield Infrastructure Corporation and Brookfield Business Partners L.P., which are separate public issuers included within our Real Estate, Renewable Power and Transition, 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 55 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](http://www.brookfield.com), on the Canadian Securities Administrators’ website at [www.sedar.com](http://www.sedar.com) and on the EDGAR section of the U.S. Securities and Exchange Commission’s (“SEC”) website at [www.sec.gov](http://www.sec.gov).

We are incorporated in Ontario, Canada, and qualify as an eligible Canadian issuer under the Multijurisdictional Disclosure System and as a “foreign private issuer” as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended. As a result, we comply with U.S. continuous reporting requirements by filing our Canadian disclosure documents with the SEC; our annual report is filed under Form 40-F and we furnish our quarterly interim reports under Form 6-K.

Information contained in or otherwise accessible through the websites mentioned throughout this report does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference. Any other reports of the Company referred to herein are not incorporated by reference unless explicitly stated otherwise.

## 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. 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. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements which reflects management’s expectations 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 contained in this Report. The statements and information 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: (i) investment returns that are lower than target; (ii) the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business, including as a result of COVID-19 and the global economic shutdown; (iii) the behavior of financial markets, including fluctuations in interest and foreign exchange rates; (iv) global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; (v) strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; (vi) changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); (vii) the ability to appropriately manage human capital; (viii) the effect of applying future accounting changes; (ix) business competition; (x) operational and reputational risks; (xi) technological change; (xii) changes in government regulation and legislation within the countries in which we operate; (xiii) governmental investigations; (xiv) litigation; (xv) changes in tax laws; (xvi) ability to collect amounts owed; (xvii) catastrophic events, such as earthquakes, hurricanes, or pandemics/epidemics; (xviii) the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; (xix) the introduction, withdrawal, success and timing of business initiatives and strategies; (xx) the failure of effective disclosure controls and procedures and internal controls over financial reporting and other risks; (xxi) health, safety and environmental risks; (xxii) the maintenance of adequate insurance coverage; (xxiii) the existence of information barriers between certain businesses within our asset management operations; (xxiv) risks specific to our business segments including our real estate, renewable power and transition, infrastructure, private equity, and other alternatives, including credit; and (xxv) factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States, including in “Part 6 – Business Environment and Risks” of our Annual Report available on SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at [www.sec.gov](http://www.sec.gov).

We caution that the foregoing list of important factors that may affect future results is not exhaustive. Readers are urged to consider the foregoing risks, as well as other uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. 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.

Past performance is not indicative nor a guarantee of future results. There can be no assurance that comparable results will be achieved in the future, that future investments will be similar to the historic investments discussed herein (because of economic conditions, the availability of investment opportunities or otherwise), that targeted returns, diversification or asset allocations will be met or that an investment strategy or investment objectives will be achieved.

## STATEMENT REGARDING USE OF NON-IFRS MEASURES

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). 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 55 for all non-IFRS measures.

# PART 1 – OUR BUSINESS AND STRATEGY

## OVERVIEW

We are a leading global alternative asset manager<sup>1</sup> with a history spanning over 100 years. We have approximately \$650 billion of assets under management<sup>1</sup> across a broad portfolio of real estate, infrastructure, renewable power and transition, private equity and credit. Our \$341 billion in fee-bearing capital<sup>1</sup> is invested on behalf of some of the world's largest institutional investors, sovereign wealth funds and pension plans, along with thousands of individuals.

We provide a diverse product mix of private funds<sup>1</sup> and dedicated public vehicles, which allow investors to invest in our five key asset classes and participate in the strong performance of the underlying portfolio. We invest in a disciplined manner, targeting returns of 12-15% over the long-term with strong downside protection, allowing our investors and their stakeholders to meet their goals and protect their financial futures.

### ✓ **Investment focus**

We predominantly invest in real assets across real estate, infrastructure, renewable power and transition, private equity and credit.

### ✓ **Diverse products offering**

We offer public and private vehicles to invest across a number of product lines, including core, value-add, and opportunistic equity and credit strategies in both closed-end and perpetual vehicles.

### ✓ **Focused investment strategies**

We invest where we can bring our competitive advantages to bear, such as our strong capabilities as an owner-operator, our large-scale capital and our global reach.

### ✓ **Disciplined financing approach**

We employ leverage<sup>1</sup> in a prudent manner to enhance returns while preserving capital throughout business cycles. Underlying investments are typically funded at investment-grade levels on a standalone and non-recourse basis, providing us with a stable capitalization. Only 6% of the total leverage reported in our consolidated financial statements has recourse to the Corporation.

### ✓ **Sustainability**

We are committed to ensuring that the assets and businesses in which we invest are set up for long-term success, and we seek to have a positive impact on the environment and the communities in which we operate.

In addition, we maintain significant invested capital<sup>1</sup> on the Corporation's balance sheet where we invest alongside our investors. This capital generates annual cash flows that enhance the returns we earn as an asset manager, creates a strong alignment of interest, and allows us to bring the following strengths to bear on all our investments:

#### 1. **Large-scale capital**

We have approximately \$650 billion in assets under management and \$341 billion in fee-bearing capital.

#### 2. **Operating expertise**

We have approximately 150,000 operating employees worldwide who maximize value and cash flows from our operations.

#### 3. **Global reach**

We operate in more than 30 countries on five continents around the world.

The value of the business is comprised of two key components: Our asset management activities that we refer to as Asset Management, and our balance sheet investments that we refer to as Invested Capital. Our financial returns are represented by the combination of the earnings of our Asset Management business, as well as capital appreciation and distributions from our Invested Capital. The primary performance measure we use is funds from operations ("FFO")<sup>1</sup> which we use to evaluate the performance of our segments.

1. See definition in Glossary of Terms beginning on page 55.

## Asset Management

Our asset management activities encompass \$341 billion of fee-bearing capital across a broad portfolio of real estate, infrastructure, renewable power and transition, private equity and credit. We have approximately 2,000 unique institutional investors across our private funds business. We have approximately \$35 billion of additional committed capital that will be fee-bearing when invested, and this capital is managed within long-term private funds, perpetual strategies and liquid strategies<sup>1</sup>.

### *Long-term Private Funds – \$151 billion fee-bearing capital*

We manage and earn fees on a diverse range of real estate, renewable power and transition, infrastructure, private equity and credit funds. These funds are long duration in nature and include closed-end value-add, credit and opportunistic strategies. On long-term private fund capital, we earn:

1. Diversified and long-term **base management fees**<sup>1</sup> on capital that is typically committed for 10 years with two one-year extension options.
2. **Carried interest**<sup>1</sup>, which enables us to receive a portion of overall fund profits provided that investors receive a minimum prescribed preferred return. Carried interest is recognized when a fund's cumulative returns are in excess of preferred returns and when it is highly probable that a significant reversal will not occur.

### *Perpetual Strategies – \$113 billion fee-bearing capital*

We manage perpetual capital in our perpetual affiliates<sup>1</sup>, as well as core and core plus private funds, which can continually raise new capital. From our perpetual strategies, we earn:

1. Long-term perpetual **base management fees**, which as general partner of our perpetual affiliates, are based on total capitalization or net asset value ("NAV") of our perpetual affiliates and the NAV of our perpetual private funds.
2. Stable **incentive distribution**<sup>1</sup> fees which are linked to cash distributions from perpetual affiliates (BEP/BEPC and BIP/BIPC) that exceed pre-determined thresholds. These cash distributions have a historical track record of growing annually and each of these perpetual affiliates target annual distribution growth rates within a range of 5-9%.
3. **Performance fees**<sup>1</sup> based on unit price performance (BBU) and carried interest on our perpetual private funds.

### *Liquid Strategies – \$77 billion fee-bearing capital*

We manage publicly listed funds and separately managed accounts, focused on fixed income and equity securities across real estate, infrastructure and natural resources. We earn **base management fees**, which are based on committed capital and fund NAV, and performance income based on investment returns.

## Invested Capital

We have approximately \$65 billion of invested capital on our balance sheet as a result of our history as an owner and operator of real assets. This capital provides attractive financial returns and important stability and flexibility to our asset management business.

### *Key attributes of our invested capital:*

- Transparent – approximately 41% of our invested capital is in our publicly traded investments. The remainder is primarily held in our recently privatized real estate perpetual affiliate, a residential homebuilding business, and a few other directly held investments.
- Diversified, long-term, stable cash flows – received from our underlying perpetual affiliates. These cash flows are underpinned by investments in real assets which should provide inflation protection and less volatility compared to traditional equities, and higher yields compared to fixed income.
- Strong alignment of interests – we are the largest investor into each of our perpetual affiliates, and in turn, the perpetual affiliates are typically the largest investor in each of our private funds.

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

1. See definition in Glossary of Terms beginning on page 55.

## 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. Starting on page 45 of our 2020 Annual Report, we provide an overview of our fair value accounting process and why we believe it provides useful information for investors about our performance. We also provide an overview of our application of the control-based model under IFRS used to determine whether or not an investment should be consolidated.

### OVERVIEW

Our business performed strongly in the current quarter, with most of our businesses generating solid results. The market environment has been strong and continues to get stronger in most, if not all, of the key markets we operate in.

Net income was \$2.7 billion in the current quarter, with \$797 million attributable to common shareholders (\$0.47 per share) and the remaining income attributable to non-controlling interests.

During the third quarter, the \$2.2 billion increase in net income compared to the prior year period is attributable to:

- fair value gains of \$700 million compared to a loss of \$31 million realized in the prior year quarter primarily as a result of valuation gains on our investment properties;
- an increase of equity accounted income of \$523 million from valuation gains on investment properties held in our equity accounted investments; and
- contributions from acquisitions over the last twelve months and same-store growth across our operations; partially offset by
- income tax expense of \$717 million compared to \$225 million in the prior year quarter, primarily due to an increase in tax rates in Colombia, higher taxable income relative to the prior year quarter and the tax impact of the aforementioned fair value uplifts.

Our consolidated balance sheet increased as a result of assets acquired, net of liabilities, from business combinations completed. In addition, increases relate to our investment properties and net valuation gains driven by revaluations of our LP investments. Equity accounted investments also increased due to our share of comprehensive income generated in those businesses. These increases were partially offset by the sale of a portion of our West Fraser Timber Co. (“West Fraser”)<sup>1</sup> shares and the sale of a portfolio of investment properties.

1. See definition in Glossary of Terms beginning on page 55.

## INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the company for the three and nine months ended September 30, 2021 and 2020:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended			Nine Months Ended		
	2021	2020	Change	2021	2020	Change
Revenues .....	\$ 19,248	\$ 16,249	\$ 2,999	\$ 53,944	\$ 45,664	\$ 8,280
Direct costs .....	(14,751)	(12,372)	(2,379)	(40,932)	(34,527)	(6,405)
Other income and gains .....	1,123	34	1,089	3,078	304	2,774
Equity accounted income (loss) .....	662	139	523	1,818	(704)	2,522
Expenses						
Interest .....	(1,899)	(1,757)	(142)	(5,560)	(5,324)	(236)
Corporate costs .....	(27)	(25)	(2)	(86)	(74)	(12)
Fair value changes .....	700	(31)	731	3,171	(1,598)	4,769
Depreciation and amortization .....	(1,617)	(1,470)	(147)	(4,698)	(4,255)	(443)
Income tax expense .....	(717)	(225)	(492)	(1,808)	(594)	(1,214)
<b>Net income (loss) .....</b>	<b>2,722</b>	<b>542</b>	<b>2,180</b>	<b>8,927</b>	<b>(1,108)</b>	<b>10,035</b>
Non-controlling interests .....	(1,925)	(370)	(1,555)	(6,079)	331	(6,410)
<b>Net income (loss) attributable to shareholders .....</b>	<b>\$ 797</b>	<b>\$ 172</b>	<b>\$ 625</b>	<b>\$ 2,848</b>	<b>\$ (777)</b>	<b>\$ 3,625</b>
<b>Net income (loss) per share<sup>1</sup> .....</b>	<b>\$ 0.47</b>	<b>\$ 0.10</b>	<b>\$ 0.37</b>	<b>\$ 1.72</b>	<b>\$ (0.53)</b>	<b>\$ 2.25</b>

1. 2020 is adjusted to reflect the three-for-two split effective April 1, 2020.

### Three Months Ended September 30

Revenues for the quarter were \$19.2 billion, an increase of \$3.0 billion compared to the third quarter of 2020, resulting from:

- higher prices and volumes at our road fuels operation within our Private Equity segment. Included within the business' revenues and direct costs are import duties that are passed through to their customers;
- favorable pricing and mix due to increased aftermarket demand for advanced batteries at our advanced energy storage operations within our Private Equity segment;
- higher occupancy at our hospitality assets within our Real Estate segment as the prior period was impacted by the pandemic related economic shutdown; and
- additional revenues from acquisitions during the last twelve months, net of the absence of revenues from businesses sold during the same period; partially offset by
- lower contributions from our graphite electrode operations within our Private Equity segment. As a result of the partial sell-down of our stake in the business in prior quarters, this business is no longer consolidated.

A discussion of the impact on revenues and net income from recent acquisitions and dispositions can be found on page 18.

Direct costs increased by 19% or \$2.4 billion. The increase is primarily due to the aforementioned higher volumes at our road fuels operation and increased aftermarket demand for advanced energy storage operations. In addition, cost savings initiatives across a number of our businesses were partially offset by higher direct costs related to recent acquisitions, net of dispositions.

Other income and gains of \$1.1 billion primarily related to the sale of our U.S. district energy operation in our Infrastructure segment.

Equity accounted income increased by \$523 million primarily due to:

- valuation gains on investment properties held in our equity accounted investments; and
- strong operating performance at Oaktree; partially offset by
- the absence of contributions from Norbord Inc. ("Norbord")<sup>1</sup> due to the change in accounting basis of our interest in West Fraser shares acquired as part of the West Fraser – Norbord strategic business combination.

1. See definition in Glossary of Terms beginning on page 55.

Interest expense of \$1.9 billion increased by \$142 million due to additional borrowings associated with acquisitions, partially offset by the benefits of lower interest rates on our variable rate debt held within our real estate operations.

We recorded fair value gains of \$700 million, compared to a loss of \$31 million in the prior year quarter, primarily as a result of valuation gains on our LP investments. Refer to pages 19 and 20 for a discussion on fair value changes.

Depreciation and amortization expense increased by \$147 million to \$1.6 billion due to businesses acquired in the last twelve months, as well as the impact of revaluation gains in the fourth quarter of 2020, which increased the carrying value of our property, plant and equipment (“PP&E”) from which depreciation is determined.

We recorded an income tax expense of \$717 million this quarter compared to \$225 million in the prior year quarter due to an increase in tax rates in Colombia, higher taxable income and the tax impact of the aforementioned fair value uplifts.

### **Nine Months Ended September 30**

Revenues and direct costs for the nine month period increased by \$8.3 billion and \$6.4 billion, respectively, compared to the same period in 2020 primarily due to the recovery from the pandemic related shutdowns experienced in 2020, which impacted same-store growth across our businesses, and acquisitions over the last twelve months.

Other income and gains for the nine month period increased by \$2.8 billion compared to the prior year period. The current period gain primarily relates to the sale of our Canadian and U.S. district energy operations in the second and third quarters of 2021, respectively.

Equity accounted income for the nine month period increased by \$2.5 billion compared to the prior year period primarily due to the aforementioned higher fair value gains in our Real Estate segment as well as strong operating performance at Oaktree. Included in the prior year period were valuation losses at our transitional and development operations within our Real Estate segment.

Fair value gains were \$3.2 billion for the nine month period, compared to a loss of \$1.6 billion reported in the prior year period. The gains were primarily due to valuation gains on our LP investments within our Real Estate segment, as well as transaction related gains on the deconsolidation of our interest in our graphite electrode operations within our Private Equity segment. The prior year period included valuation losses due to the impact of the pandemic related economic shutdown, partially offset by appraisal gains on our LP investments within our real estate operations.

## 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, 2021:

FOR THE PERIODS ENDED SEP. 30, 2021 (MILLIONS)	Three Months Ended				Nine Months Ended			
	Acquisitions		Dispositions		Acquisitions		Dispositions	
	Revenue	Net Income (Loss)	Revenue	Net Loss (Income)	Revenue	Net Income (Loss)	Revenue	Net Loss (Income)
Real Estate .....	\$ 193	\$ 193	\$ (136)	\$ (322)	\$ 416	\$ 186	\$ (331)	\$ (477)
Renewable Power and Transition .....	72	15	(25)	19	154	21	(47)	35
Infrastructure .....	640	66	(115)	(2)	1,274	69	(353)	(33)
Private Equity .....	257	50	(347)	(111)	676	31	(852)	(352)
	<u>\$ 1,162</u>	<u>\$ 324</u>	<u>\$ (623)</u>	<u>\$ (416)</u>	<u>\$ 2,520</u>	<u>\$ 307</u>	<u>\$ (1,583)</u>	<u>\$ (827)</u>

### Acquisitions

Acquisitions over the past year contributed incremental revenues and net income of \$1.2 billion and \$324 million, respectively, in the current quarter.

#### *Real Estate*

Recent acquisitions contributed incremental revenues of \$193 million and net income of \$193 million. These contributions were primarily from our asset acquisitions made through Brookfield Strategic Real Estate Partners III (“BSREP III”).

#### *Renewable Power and Transition*

Within our Renewable Power and Transition segment, recent acquisitions contributed to incremental revenues and net income of \$72 million and \$15 million, respectively. These contributions were primarily due to the acquisitions of a distributed generation platform and a wind portfolio in the first quarter of 2021.

#### *Infrastructure*

Recent acquisitions contributed incremental revenues of \$640 million and net income of \$66 million. These contributions were primarily from Summit DigiTel Infrastructure Pvt. Ltd. (“Summit DigiTel”) and our U.S. LNG export terminal, both acquired in the third quarter of 2020, and Inter Pipeline Ltd. (“IPL”) that was acquired in the current quarter.

#### *Private Equity*

Within our Private Equity segment, recent acquisitions contributed to incremental revenues of \$257 million and net income of \$50 million. These contributions were primarily from a technology services business acquired in the first quarter of 2021, the acquisition of the remaining publicly held interest in our residential mortgage insurer in the second quarter of 2021 and a solar power solutions business acquired in the current quarter.

### Dispositions

Recent asset sales reduced revenues and net income by \$623 million and \$416 million in the current quarter, respectively. The assets sold that most significantly impacted our results were the disposition of our life science assets in our Real Estate segment, the partial disposition of our graphite electrode operations in our Private Equity segment and the disposition of our North American district energy operations in our Infrastructure segment.

1. See definition in Glossary of Terms beginning on page 55.

## 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		
	2021	2020	Change	2021	2020	Change
Investment properties	\$ 1,077	\$ 235	\$ 842	\$ 2,784	\$ (444)	\$ 3,228
Transaction related expenses, net of gains	(340)	(117)	(223)	659	(117)	776
Financial contracts	182	(41)	223	835	53	782
Impairment and provisions	(77)	(88)	11	(461)	(638)	177
Other fair value changes	(142)	(20)	(122)	(646)	(452)	(194)
Total fair value changes	\$ 700	\$ (31)	\$ 731	\$ 3,171	\$ (1,598)	\$ 4,769

### Investment Properties

Investment properties are recorded at fair value with changes recorded in net income. We present the investment properties of our Real Estate segment within three sub-segments. The sub-segments are based on our strategy to maintain an irreplaceable portfolio of trophy mixed-use precincts in global gateway cities (“Core”), maximize returns through a development or buy-fix-sell strategy (“Transitional and Development”), or reinvest proceeds received from vintage funds (“LP Investments”).

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		
	2021	2020	Change	2021	2020	Change
Core	\$ (97)	\$ (53)	\$ (44)	\$ (32)	\$ (19)	\$ (13)
Transitional and Development	(261)	(302)	41	(393)	(1,224)	831
LP Investments and Other	1,435	590	845	3,209	799	2,410
	\$ 1,077	\$ 235	\$ 842	\$ 2,784	\$ (444)	\$ 3,228

We discuss the key valuation inputs of our investment properties on pages 53 and 54.

#### Core

Valuation losses of \$97 million primarily relate to lower rent renewal assumptions on certain of our retail assets, as well as updated downtime and leasing assumptions on certain New York office assets.

Valuation losses of \$53 million in the prior year quarter are due to changes in cash flow, downtime and tenant improvement assumptions in our New York portfolio.

The nine-month valuation losses of \$32 million are primarily as a result of updated leasing and cash flow assumptions in our retail portfolio.

#### Transitional and Development

Valuation losses of \$261 million primarily relate to:

- updated leasing and cash flow assumptions in our retail portfolio; and
- revised concessions, leasing and growth rate assumptions of office assets in Canada and the U.S.; partially offset by
- capitalization rate compression at certain assets in Brazil and the U.S. to reflect market activity.

Valuation losses of \$302 million in the prior year quarter are primarily due to lower market rent assumptions, partially offset by a decrease in capitalization rates of assets located in London and New York.

The valuation losses for the nine month period are due to the aforementioned losses, partially offset by favorable market rent assumptions in Brazil.

## *LP Investments and Other*

Valuation gains of \$1.4 billion primarily relate to:

- higher valuations in our student housing and manufactured housing portfolios due to capitalization rate changes;
- discount rate compression in our office portfolio in New York due to revised ground lease agreements and updated valuations on multifamily properties; and
- capitalization rate compression at our mixed-use property in Seoul; partially offset by
- losses due to updated leasing and NOI assumptions on certain office assets within our portfolio.

In the prior year quarter, valuation gains of \$590 million were primarily related to a gain on the life science assets at Forest City Realty Trust, Inc. (“Forest City”)<sup>1</sup> to reflect recent broker valuations and discount rate compression, as well as higher leasing at our Shanghai mixed-use property and gains in our Brazil office portfolio, driven by capitalization rate compression to reflect the historically low interest rate environment. Our U.K. student housing and U.S. manufactured housing portfolios also contributed to these gains.

The nine-month gains are mainly driven by capitalization rate compression in our manufactured housing, multifamily and student housing portfolios.

### ***Transaction Related Expenses, Net of Gains***

Transaction related expenses, net of gains, totaled \$340 million for the quarter. This is primarily attributable to a premium on an option within our Corporate segment, transactions costs incurred on the acquisition of IPL within our Infrastructure segment and restructuring costs within our Private Equity segment.

The prior year quarter transaction related expenses, net of gains, of \$117 million primarily relate to restructuring costs and transaction costs for ongoing deals within our Private Equity segment.

The gains for the nine month period mainly relate to the deconsolidation of our investment in our graphite electrode operations within our private equity business, as a result of a further sell-down of our interest during that period. These gains are partially offset by transaction costs.

### ***Financial Contracts***

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

The gain this quarter of \$182 million is primarily attributable to a mark-to-market gain on a toehold position in our Real Estate segment, partially offset by the mark-to-market movement on short-term financial contracts to hedge prices in our Infrastructure and Private Equity segments.

Unrealized losses of \$41 million in the prior year quarter is primarily attributable to mark-to-market losses on our market and currency hedges, partially offset by valuation gains on toehold positions in our Private Equity segment and interest rate swaps in our Private Equity and Real Estate segments.

The year-to-date gains on financial contracts relate to the aforementioned fair value changes on our toehold position in our Real Estate segment in the current quarter as well as gains on our venture investments in the prior quarter.

### ***Impairment and Provisions***

Impairment and provision expense for the quarter of \$77 million is primarily attributable to legal provisions at our Brazil residential development operations.

The year-to-date impairment and provision expenses relate to the aforementioned legal provisions, as well as credit losses recognized on certain assets and the closure of one of our North American recycling facilities within our private equity business as part of a broader plan to improve the efficiency of its U.S. operations in the first quarter of 2021.

### ***Other Fair Value Changes***

Other fair value losses of \$142 million were reported for the quarter. Included in this balance are various other one-time charges across our segments.

1. See definition in Glossary of Terms beginning on page 55.

## Income Taxes

We recorded an aggregate income tax expense of \$717 million in the current quarter (2020 – \$225 million), including current tax expenses of \$289 million (2020 – \$204 million) and deferred tax expense of \$428 million (2020 – \$21 million).

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our consolidated 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		
	2021	2020	Change	2021	2020	Change
Statutory income tax rate.....	26%	26%	—%	26%	26%	—%
(Reduction) increase in rate resulting from:						
Portion of gains subject to different tax rates.....	(9)	(1)	(8)	(6)	(12)	6
Change in tax rates and new legislation.....	5	4	1	4	(37)	41
Taxable income attributed to non-controlling interests.....	(2)	(12)	10	(9)	29	(38)
International operations subject to different tax rates.....	(1)	11	(12)	(1)	(118)	117
(Recognition) derecognition of deferred tax assets.....	(2)	(10)	8	(2)	39	(41)
Non-recognition of the benefit of current year's tax losses...	3	7	(4)	2	(24)	26
Other.....	1	4	(3)	3	(19)	22
Effective income tax rate.....	<u>21%</u>	<u>29%</u>	<u>(8%)</u>	<u>17%</u>	<u>(116%)</u>	<u>133%</u>

In the current quarter, we realized disposition gains that were subject to tax rates that were different to our statutory income tax rate. This contributed to a 9% reduction in our effective tax rate. This benefit was partially offset by a non-recurring deferred tax expense we recorded due to an increase in tax rates in jurisdictions we operate in. This non-recurring tax expense increased our effective tax rate by 5% in the current quarter.

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 include income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only our proportionate share of the associated tax provision of these entities. In other words, we are consolidating all the net income, but only our share of the associated tax provision. This reduced our effective tax rate by 2% in the current quarter.

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 resulted in a 1% decrease in our effective tax rate in the current 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, 2021 and December 31, 2020:

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	<u>2021</u>	<u>2020</u>	<u>Change</u>
<b>Assets</b>			
Property, plant and equipment .....	\$ 107,761	\$ 100,009	\$ 7,752
Investment properties .....	103,493	96,782	6,711
Equity accounted investments .....	43,267	41,327	1,940
Cash and cash equivalents .....	11,343	9,933	1,410
Accounts receivable and other .....	20,272	18,928	1,344
Intangible assets .....	26,056	24,658	1,398
Goodwill .....	16,999	14,714	2,285
Other assets .....	36,233	37,345	(1,112)
<b>Total assets</b> .....	<b><u>\$ 365,424</u></b>	<b><u>\$ 343,696</u></b>	<b><u>\$ 21,728</u></b>
<b>Liabilities</b>			
Corporate borrowings .....	\$ 10,309	\$ 9,077	\$ 1,232
Non-recourse borrowings of managed entities .....	156,165	139,324	16,841
Other non-current financial liabilities .....	26,801	28,524	(1,723)
Other liabilities .....	48,578	44,129	4,449
<b>Equity</b>			
Preferred equity .....	4,145	4,145	—
Non-controlling interests .....	80,618	86,804	(6,186)
Common equity .....	38,808	31,693	7,115
<b>Total equity</b> .....	<b><u>123,571</u></b>	<b><u>122,642</u></b>	<b><u>929</u></b>
	<b><u>\$ 365,424</u></b>	<b><u>\$ 343,696</u></b>	<b><u>\$ 21,728</u></b>

### September 30, 2021 vs. December 31, 2020

Total assets increased by \$21.7 billion since December 31, 2020 to \$365.4 billion as at September 30, 2021. The increase is driven by net valuation gains as well as recently completed business combinations and asset acquisitions, net of disposals, which added \$21.8 billion of total assets. This was partially offset by amortization and depreciation of our asset base during the nine months ended September 30, 2021.

PP&E increased by \$7.8 billion primarily as a result of:

- additions of \$19.8 billion, primarily related to the acquisition of IPL in our Infrastructure segment; partially offset by
- dispositions and assets reclassified as held for sale of \$4.8 billion, most notably our North American district energy operations within our Infrastructure segment as well as our wind portfolios in the U.S. and Europe within our Renewable Power and Transition segment;
- depreciation of \$3.7 billion in the quarter; and
- the impact of foreign currency translation of \$2.1 billion.

We provide a continuity of PP&E in Note 10 of the consolidated financial statements.

Investment properties consist primarily of the company's real estate assets. The balance as at September 30, 2021 increased by \$6.7 billion, primarily due to:

- additions of \$10.2 billion, mainly through the purchase of investment properties within our BSREP III fund; and
- net valuation gains of \$2.8 billion, driven by revaluations of our LP investments; partially offset by

- asset sales and reclassifications to assets held for sale of \$5.1 billion, primarily in our BSREP III fund, core and opportunistic portfolios; and
- the impact of foreign currency translation of \$1.1 billion.

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

Equity accounted investments increased by \$1.9 billion to \$43.3 billion in the current quarter, mainly due to:

- additions of \$1.8 billion, net of dispositions, primarily due to the change in accounting basis of our interest in our graphite electrode operations within our Private Equity segment, as a result of the partial sale of our stake in the business in the first and second quarters of 2021; and
- our proportionate share of comprehensive income of \$1.9 billion; partially offset by
- distributions and returns of capital received of \$1.4 billion.

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

Cash and cash equivalents increased by \$1.4 billion as at September 30, 2021. For further information, refer to our Consolidated Statements of Cash Flows and to the Review of Consolidated Statements of Cash Flows within Part 4 – Capitalization and Liquidity.

Increases of \$1.4 billion and \$2.3 billion in our intangible assets and goodwill balances, respectively, are related to additions from acquisitions, net of dispositions, primarily in our Infrastructure segment, partially offset by amortization of certain intangible assets.

Other assets are comprised of inventory, deferred income tax assets, assets classified as held for sale and other financial assets.

The decrease of \$1.1 billion is primarily a result of:

- a decrease in assets held for sale of \$2.4 billion, mostly due to the sale of life science assets and office properties within our Real Estate segment as well as the derecognition of our investment in Norbord within our Private Equity segment in the first quarter of 2021; partially offset by
- the reclassification of our assets in our Forest City within our Real Estate segment and our sustainable resources within our Infrastructure segment to held for sale in the current quarter; and
- an increase in inventory of \$1.3 billion, largely attributable to our Real Estate segment, as well as higher inventory on hand and increased prices at our advanced energy storage operations and our road fuels operation within our Private Equity segment.

Corporate borrowings increased by \$1.2 billion due to a \$600 million green bond financing, a \$250 million re-opening of our 2051 notes, and \$350 million of commercial paper issuances during the quarter.

Non-recourse borrowings of managed entities increased by \$16.8 billion as a result of an increase in property-specific borrowings, net of borrowings reclassified to held for sale, largely attributable to recent acquisitions and refinancings in our real estate and infrastructure businesses; as well as an increase in subsidiary borrowings across our segments.

Other non-current financial liabilities consist of our subsidiary equity obligations, non-current accounts payable and other long-term financial liabilities that are due after one year. The decrease of \$1.7 billion was primarily due to the reclassification of certain deferred consideration to current liabilities within our Infrastructure segment. The increase of \$4.4 billion in other liabilities, was primarily due to recent acquisitions and the aforementioned increase in prices at our advanced energy storage operations and our road fuels operation within our Private Equity segment. Please see Note 6 of the consolidated financial statements for further information.

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

1. See definition in Glossary of Terms beginning on page 55.

## Equity

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

### 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, 2021 (MILLIONS)	
Common equity, beginning of period .....	<u>\$ 31,693</u>
Changes in period	
Net income attributable to shareholders .....	2,848
Common dividends .....	(1,134)
Preferred dividends .....	(111)
Other comprehensive loss .....	(210)
Share issuances, net of repurchases .....	2,841
Ownership changes and other .....	<u>2,881</u>
	<u>7,115</u>
Common equity, end of period .....	<u>\$ 38,808</u>

Common equity increased by \$7.1 billion to \$38.8 billion during the nine month period ended September 30, 2021. The change includes:

- net income attributable to common shareholders of \$2.8 billion;
- share issuances, net of repurchases, of \$2.8 billion, primarily related to the issuance of 60.9 million Class A Limited Voting Shares (“Class A shares”) as part of the BPY privatization in the third quarter, net of the repurchase of 8.7 million Class A shares during the nine months ended September 30, 2021; and
- ownership changes and other of \$2.9 billion primarily related to the privatization of BPY in the third quarter, the secondary offering of BEPC shares, as well as the partial sell-down of our graphite electrode operations and our interest in our Indian real estate trust; partially offset by
- distributions of \$1.2 billion to shareholders as common and preferred share dividends, including the \$538 million distribution as part of the spin-off of our reinsurance business in the second quarter; and
- other comprehensive loss of \$210 million, primarily due to foreign currency translation.

## Non-controlling Interests

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	<u>2021</u>	<u>2020</u>
Brookfield Property Group .....	<b>\$ 16,235</b>	\$ 25,986
Brookfield Renewable .....	<b>16,646</b>	17,194
Brookfield Infrastructure .....	<b>23,446</b>	19,753
Brookfield Business Partners L.P. ....	<b>8,394</b>	9,162
Other participating interests .....	<b>15,897</b>	14,709
	<b><u>\$ 80,618</u></b>	<b><u>\$ 86,804</u></b>

Non-controlling interests decreased by \$6.2 billion during the nine-month period ended September 30, 2021, primarily due to:

- decrease in non-controlling interests related to the privatization of BPY in the third quarter of 2021; and
- distributions, net of equity issuances, of \$7.6 billion, to non-controlling interests; partially offset by
- an increase in non-controlling interests as a result of the acquisition of IPL in the third quarter of 2021; and
- comprehensive income attributable to non-controlling interests, which totaled \$4.9 billion.

## FOREIGN CURRENCY TRANSLATION

Approximately half of our capital is invested in non-U.S. currencies and the cash flows generated from these businesses, as well as our equity, are 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, 2021 AND DEC. 31, 2020 AND FOR THE PERIODS ENDED SEP. 30	Average Rate								
	Period-End Spot Rate			Three Months Ended			Nine Months Ended		
	<b>2021</b>	2020	Change	<b>2021</b>	2020	Change	<b>2021</b>	2020	Change
Australian dollar .....	<b>0.7227</b>	0.7694	(6)%	<b>0.7347</b>	0.7152	3 %	<b>0.7591</b>	0.6771	12 %
Brazilian real <sup>1</sup> .....	<b>5.4407</b>	5.1975	(4)%	<b>5.2274</b>	5.3763	3 %	<b>5.3336</b>	5.0759	(5)%
British pound .....	<b>1.3474</b>	1.3670	(1)%	<b>1.3779</b>	1.2919	7 %	<b>1.3851</b>	1.2711	9 %
Canadian dollar .....	<b>0.7886</b>	0.7853	— %	<b>0.7939</b>	0.7507	6 %	<b>0.7994</b>	0.7392	8 %
Colombian peso <sup>1</sup> .....	<b>3,809.1</b>	3,428.3	(10)%	<b>3,847.8</b>	3,731.6	(3)%	<b>3,701.3</b>	3,708.7	— %
Euro .....	<b>1.1580</b>	1.2217	(5)%	<b>1.1786</b>	1.1691	1 %	<b>1.1963</b>	1.1245	6 %

1. Using Brazilian real and Colombian peso as the price currency.

Currency exchange rates relative to the U.S. dollar at the end of the current quarter were lower than December 31, 2020 for all of our significant non-U.S. dollar investments with the exception of the Canadian dollar. As at September 30, 2021, our common equity of \$38.8 billion was invested in the following currencies: U.S. dollars – 57% (December 31, 2020 – 58%); Brazilian reais – 7% (December 31, 2020 – 8%); British pounds – 17% (December 31, 2020 – 12%); Canadian dollars – 8% (December 31, 2020 – 7%); Australian dollars – 6% (December 31, 2020 – 7%); Colombian pesos – 1% (December 31, 2020 – 2%); and other currencies – 4% (December 31, 2020 – 6%).

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	
	2021	2020	2021	2020
Australian dollar	\$ (317)	\$ 243	\$ (542)	\$ 117
Brazilian real	(868)	(346)	(231)	(4,116)
British pound	(344)	458	(192)	(273)
Canadian dollar	(261)	261	193	(301)
Colombian peso	(97)	(149)	(610)	(681)
Euro	(143)	249	(271)	231
Other	(84)	349	(370)	(118)
Total cumulative translation adjustments	(2,114)	1,065	(2,023)	(5,141)
Currency hedges <sup>1</sup>	652	(528)	480	878
Total cumulative translation adjustments net of currency hedges	\$ (1,462)	\$ 537	\$ (1,543)	\$ (4,263)
Attributable to:				
Shareholders	\$ (427)	\$ 205	\$ (334)	\$ (1,066)
Non-controlling interests	(1,035)	332	(1,209)	(3,197)
	\$ (1,462)	\$ 537	\$ (1,543)	\$ (4,263)

1. Includes deferred income tax expense of \$11 million for the three months ended September 30, 2021 (2020 – recovery of \$6 million) and expense of \$6 million for the nine months ended September 30, 2021 (2020 – \$51 million).

The foreign currency translation of our equity, net of currency hedges, for the three and nine months ended September 30, 2021 generated a loss of \$1.5 billion and \$1.5 billion, respectively. The loss that was generated during the current quarter was primarily attributable to lower period end rates for our non-U.S. dollar investments, particularly the Brazilian real. The loss generated for the nine months period was attributable to lower period end rates for our non-U.S. dollar investments, particularly the Colombian peso and Australian dollar, partially offset by gains on the higher period end rate for the Canadian dollar.

We seek to hedge foreign currency exposure where the cost of doing so is reasonable. Due to the high historical costs associated with hedging the Brazilian real, Colombian peso and other emerging market currencies, hedge levels against those currencies were low at quarter end.

## CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities during the first nine months of 2021, 2020 and 2019, are summarized in the following table. Dividends to the Class A and B Limited Voting Shares have been adjusted to reflect a three-for-two stock split on April 1, 2020.

	Distribution per Security		
	2021	2020	2019
Class A and B <sup>1</sup> Limited Voting Shares (“Class A and B shares”) <sup>2</sup>	\$ 0.39	\$ 0.36	\$ 0.32
Special distribution to Class A and B shares <sup>3</sup>	0.36	—	—
Class A Preferred Shares			
Series 2	0.26	0.30	0.39
Series 4	0.26	0.30	0.39
Series 8	0.37	0.42	0.56
Series 9	0.41	0.38	0.39
Series 13	0.26	0.30	0.39
Series 15	0.09	0.21	0.35
Series 17	0.71	0.66	0.67
Series 18	0.71	0.66	0.67
Series 24	0.45	0.42	0.42
Series 25 <sup>4</sup>	0.24	0.48	0.56
Series 26	0.52	0.48	0.49
Series 28	0.41	0.38	0.38
Series 30	0.70	0.65	0.66
Series 32	0.76	0.70	0.71
Series 34 <sup>5</sup>	0.67	0.61	0.61
Series 36	0.73	0.67	0.68
Series 37	0.73	0.68	0.69
Series 38 <sup>6</sup>	0.53	0.53	0.62
Series 40 <sup>7</sup>	0.60	0.56	0.63
Series 42 <sup>8</sup>	0.55	0.57	0.63
Series 44	0.75	0.69	0.71
Series 46	0.72	0.67	0.68
Series 48	0.71	0.66	0.67

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

2. 2019 and 2020 adjusted to reflect three-for-two stock split effective April 1, 2020.

3. Distribution of one class A exchangeable limited voting share of Brookfield Asset Management Reinsurance Partners Ltd. for every 145 Class A shares and Class B shares held as of the close of business of June 18, 2021.

4. Dividend rate reset commenced the last day of each quarter. All Series 25 shares were converted into Series 24 on a one-for-one basis effective June 30, 2021.

5. Dividend rate reset commenced March 31, 2019.

6. Dividend rate reset commenced March 31, 2020.

7. Dividend rate reset commenced September 30, 2019.

8. Dividend rate reset commenced June 30, 2020.

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

## SUMMARY OF QUARTERLY RESULTS

The quarterly variances in revenues over the past two years are due primarily to acquisitions and dispositions. Variances in net income to shareholders relate primarily to the timing and amount of non-cash 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, net income attributable to non-controlling interests, and the global economic shutdown.

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.

Revenues and direct costs in our private equity operations vary from quarter to quarter primarily due to acquisitions and dispositions of businesses, fluctuations in foreign exchange rates, business and economic cycles, and weather and seasonality in underlying operations. Broader economic factors and commodity market volatility may have a significant impact on a number of our businesses, in particular within our industrials portfolio. For example, seasonality affects our contract drilling and well-servicing operations as the ability to move heavy equipment safely and efficiently in western Canadian oil and gas fields is dependent on weather conditions. Within our infrastructure services, the core operating plants business of our service provider to the power generation industry generates the majority of its revenue during the fall and spring, when power plants go offline to perform maintenance and replenish their fuel. Some of our business services operations will typically have stronger performance in the latter half of the year whereas others, such as our fuel marketing and road fuel distribution businesses, will generate stronger performance in the second and third quarters. Net income is impacted by periodic gains and losses on acquisitions, monetization and impairments.

Our residential development operations are seasonal in nature and a large portion is correlated with the ongoing strength of the U.S. housing market 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 PERIODS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2021			2020			2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues .....	\$ 19,248	\$ 18,286	\$ 16,410	\$ 17,088	\$ 16,249	\$ 12,829	\$ 16,586	\$ 17,819
Net income (loss) .....	2,722	2,429	3,776	1,815	542	(1,493)	(157)	1,638
Net income (loss) to shareholders .....	797	816	1,235	643	172	(656)	(293)	846
Per share <sup>1</sup>								
– diluted .....	\$ 0.47	\$ 0.49	\$ 0.77	\$ 0.40	\$ 0.10	\$ (0.43)	\$ (0.20)	\$ 0.50
– basic .....	0.49	0.51	0.79	0.41	0.10	(0.43)	(0.20)	0.51

1. Adjusted to reflect the three-for-two split effective April 1, 2020.

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

FOR THE PERIODS ENDED (MILLIONS)	2021			2020			2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Fair value changes .....	\$ 700	\$ 377	\$ 2,094	\$ 175	\$ (31)	\$ (1,153)	\$ (414)	\$ 4
Income taxes .....	(717)	(547)	(544)	(243)	(225)	(5)	(364)	(200)
Net impact .....	\$ (17)	\$ (170)	\$ 1,550	\$ (68)	\$ (256)	\$ (1,158)	\$ (778)	\$ (196)

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

- In the third quarter of 2021, revenues increased in comparison to the prior quarter due to same-store<sup>1</sup> growth in most of our businesses. The higher net income in the quarter is primarily attributable to higher fair value gains in our Real Estate segment partially offset by higher income taxes.
- In the second quarter of 2021, revenues increased in comparison to the prior quarter due to same-store growth in most of our businesses. The lower net income in the quarter as compared to the first quarter of 2021, is a result of lower fair value gains partially offset by asset sale activity within our Infrastructure segment.
- In the first quarter of 2021, revenues decreased in comparison to the prior quarter primarily due to lower same-store results due in part to seasonality across certain operating segments. The higher net income in the quarter is a result of gains from asset sale activities.
- In the fourth quarter of 2020, revenues increased in comparison to the prior quarter due to same-store growth in most of our businesses. The higher net income in the quarter is a result of gains from asset sales in the quarter as well as a positive contribution from our equity accounted investments and fair value changes.
- In the third quarter of 2020, revenues increased relative to the prior quarter due to increased contributions from recent acquisitions across our operating segments. We had net income in the quarter, relative to the prior quarter's net loss, as a result of improved performance across many of our businesses and a positive contribution from fair value changes stemming from consolidated investment properties, particularly within our BSREP III fund.
- In the second quarter of 2020, our revenues decreased in comparison to the prior quarter, due to the impact of the economic shutdown for a large part of the quarter. The higher net loss in the quarter is primarily attributed to a decline in the valuation of our investment property portfolio as cash flow assumptions were adjusted downwards to reflect the impact of the shutdown.
- The decrease of revenues in the first quarter of 2020 compared to the prior quarter is primarily attributable to lower same-store<sup>1</sup> growth as a result of seasonality and the impact of the economic shutdown. Contributions from acquisitions across our operating segments were partially offset by recent asset sales from our Private Equity and Renewable Power and Transition segments. Net income also decreased due to unrealized fair value changes brought about by the current environment.
- In the fourth quarter of 2019, revenues remained consistent with the prior quarter as we continued to benefit from contributions from recently acquired businesses and strong same-store growth across our operating segments. Net income decreased primarily due to lower fair value gains and the absence of a deferred tax recovery, partially offset by an increase in equity accounted income.

1. See definition in Glossary of Terms beginning on page 55.

# 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 interest<sup>1</sup> 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 long-term private funds, perpetual strategies and liquid strategies on behalf of our investors and ourselves, as well as our share of the asset management activities of Oaktree. We generate contractual base management fees for these activities as well as incentive distributions and performance income, including performance fees, transaction fees and carried interest.
- ii. *Real estate* operations include the ownership, operation and development of core and transitional and development investments, as well as our share of LP investments, which sit within our private funds.
- iii. *Renewable power and transition* operations include the ownership, operation and development of hydroelectric, wind, solar and energy transition power generating facilities.
- iv. *Infrastructure* operations include the ownership, operation and development of utilities, transport, midstream, data and sustainable resource assets.
- v. *Private equity* operations include a broad range of industries, and are mostly focused on business services, infrastructure services and industrials.
- 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 leverage, 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 operating performance and capital allocation, we separately identify the portion of FFO and common equity within our segments that relate to our listed affiliates (BEP, BIP, BBU). We believe that identifying the FFO and common equity attributable to our listed affiliates 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 affiliates is available in their public filings. We also separately identify the components of our asset management FFO and realized disposition gains<sup>1</sup> 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 55.

## SUMMARY OF RESULTS BY OPERATING SEGMENT

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Revenues <sup>1</sup>			FFO			Common Equity		
	2021	2020	Change	2021	2020	Change	2021	2020	Change
Asset Management .....	\$ 1,161	\$ 770	\$ 391	\$ 597	\$ 399	\$ 198	\$ 4,887	\$ 4,947	\$ (60)
Real Estate .....	2,580	2,202	378	147	90	57	30,010	19,331	10,679
Renewable Power and Transition	1,068	957	111	58	64	(6)	4,260	5,154	(894)
Infrastructure .....	3,017	2,323	694	248	244	4	2,293	2,552	(259)
Private Equity .....	12,060	10,091	1,969	433	249	184	3,502	3,965	(463)
Residential Development .....	547	595	(48)	76	37	39	2,557	2,730	(173)
Corporate Activities .....	(15)	197	(212)	(151)	(44)	(107)	(8,701)	(6,986)	(1,715)
Total segments .....	<u>\$20,418</u>	<u>\$17,135</u>	<u>\$ 3,283</u>	<u>\$ 1,408</u>	<u>\$ 1,039</u>	<u>\$ 369</u>	<u>\$38,808</u>	<u>\$31,693</u>	<u>\$ 7,115</u>

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 consolidated financial statements.

Total revenues and FFO were \$20.4 billion and \$1.4 billion in the current quarter compared to \$17.1 billion and \$1.0 billion in the prior period, respectively. FFO includes realized disposition gains of \$328 million, compared to \$162 million in the prior year quarter. Excluding disposition gains, FFO increased by \$203 million from the prior year quarter.

Revenues increased primarily due to organic growth initiatives across our businesses and from acquisitions completed in the last twelve months across most segments.

The increase in FFO, excluding disposition gains, is primarily a result of:

- increased fee-related earnings<sup>1</sup> in our Asset Management segment earned on higher market capitalization across our perpetual affiliates and capital deployed across our other strategies, as well as an increase in realized carried interest from monetizations;
- higher contributions from our residential mortgage insurer in Canada within our Private Equity segment as a result of our increased ownership and strong business performance;
- improved contributions from our hospitality portfolio within our Real Estate segment as well as increased volumes at our transport operations within our Infrastructure segment due to the recovery back to pre-shutdown levels; and
- organic growth in other businesses, as well as contributions from recent acquisitions net of the impact of asset sales; partially offset by
- absence of contributions from Norbord as a result of the West Fraser-Norbord strategic business combination in February 2021; and
- lower returns on our financial assets portfolio in our Corporate segment.

We recognized \$328 million of disposition gains during the quarter primarily from the partial sale of our stake in West Fraser within our Private Equity segment, as well as the sale of our U.S. district energy operation within our Infrastructure segment.

Common equity increased by \$7.1 billion since year-end to \$38.8 billion primarily from the privatization of BPY and comprehensive income recognized during the last nine months, partially offset by dividends paid and the impact of share buybacks.

1. See definition in Glossary of Terms beginning on page 55.

## Fee-Bearing Capital

The following table summarizes fee-bearing capital:

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	Long-Term Private Funds	Perpetual Strategies	Liquid Strategies	Total 2021	Total 2020
Real estate .....	\$ 45,451	\$ 33,475	\$ —	\$ 78,926	\$ 61,519
Renewable power and transition .....	11,310	29,011	—	40,321	45,440
Infrastructure .....	31,707	33,157	—	64,864	62,535
Private equity .....	25,710	7,217	—	32,927	30,931
Credit and other .....	37,129	10,631	76,604	124,364	111,195
<b>September 30, 2021 .....</b>	<b>\$ 151,307</b>	<b>\$ 113,491</b>	<b>\$ 76,604</b>	<b>\$ 341,402</b>	n/a
December 31, 2020 .....	\$ 135,462	\$ 103,361	\$ 72,797	n/a	\$ 311,620

We have approximately \$35 billion of additional committed capital that does not currently earn fees but will generate approximately \$350 million in annual fees once deployed.

Fee-bearing capital increased by \$16.3 billion during the quarter. The changes are set out in the following table:

AS AT AND FOR THE THREE MONTHS ENDED SEP. 30, 2021 (MILLIONS)	Real Estate	Renewable Power and Transition	Infrastructure	Private Equity	Credit and Other	Total
Balance, June 30, 2021 .....	\$ 70,891	\$ 40,530	\$ 63,881	\$ 31,514	\$ 118,250	\$ 325,066
Inflows .....	8,306	171	1,709	1,072	9,318	20,576
Outflows .....	(52)	—	—	—	(2,480)	(2,532)
Distributions .....	(856)	(574)	(957)	(239)	(487)	(3,113)
Market valuation .....	262	(261)	147	(96)	445	497
Other .....	375	455	84	676	(682)	908
Change .....	8,035	(209)	983	1,413	6,114	16,336
<b>Balance, September 30, 2021 .....</b>	<b>\$ 78,926</b>	<b>\$ 40,321</b>	<b>\$ 64,864</b>	<b>\$ 32,927</b>	<b>\$ 124,364</b>	<b>\$ 341,402</b>

Real Estate fee-bearing capital increased by \$8.0 billion, due to:

- \$8.3 billion of inflows mainly relating to our fourth flagship fund completing its first close as well as capital deployed across various funds in the quarter; and
- \$0.3 billion increase in market valuations within our perpetual strategies; partially offset by
- \$0.9 billion of distributions and capital returned across various funds during the quarter.

Renewable Power and Transition fee-bearing capital decreased by \$0.2 billion, due to:

- \$0.6 billion of distributions, including quarterly distributions paid to the BEP's unitholders;
- \$0.3 billion decrease in market valuations as a result of a lower market capitalization of BEP; partially offset by
- \$0.2 billion of inflows from capital deployed across a number of strategies within the segment.

Infrastructure fee-bearing capital increased by \$1.0 billion, due to:

- \$1.7 billion of inflows primarily due to a capital market issuance for BIPC as well as capital deployed across our long-term private funds; partially offset by
- \$1.0 billion of distributions to unitholders.

Private Equity fee-bearing capital increased by \$1.4 billion, due to:

- \$0.7 billion increase in working capital and capitalization of BBU; and
- \$1.1 billion increase from capital deployed in our long-term private funds; partially offset by
- \$0.2 billion of distributions as capital was returned to investors.

Credit and other fee-bearing capital increased by \$6.1 billion, due to:

- \$9.3 billion of inflows from our credit and reinsurance strategies as a result of a \$2 billion reinsurance agreement that closed during the quarter, capital deployed in our closed-end credit funds, and capital raised in our open-end funds; partially offset by
- \$2.5 billion of outflows primarily due to redemptions within open-end credit funds and our liquid strategies mandates.

## Carry Eligible Capital<sup>1</sup>

Carry eligible capital increased by \$15.3 billion during the quarter to \$158.9 billion as at September 30, 2021 (\$143.6 billion – June 30, 2021). The increase was related to new commitments towards our fourth flagship real estate fund, our secondaries strategy, and perpetual private funds, partially offset by the return of capital across various funds.

As at September 30, 2021, \$106.2 billion of carry eligible capital was deployed (June 30, 2021 – \$97.3 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 are currently \$52.7 billion of uncalled fund commitments that will begin to earn carried interest once the capital is deployed and fund preferred returns are met (June 30, 2021 – \$46.3 billion).

## Operating Results

Asset management FFO includes fee-related earnings and realized carried interest<sup>1</sup> earned by us in respect of capital managed for our investors. Fee-related earnings include fees earned on the capital invested by us in the perpetual affiliates. This is representative of how we manage the business and measure 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 and realized carried interest, net<sup>1</sup>, as these are the measures that we use to analyze the performance of the Asset Management segment. We also analyze unrealized carried interest<sup>1</sup>, net, to provide insight into the value our investments have created in the period.

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	
		2021	2020	2021	2020
Fee-related earnings .....	i	\$ 857	\$ 728	\$ 451	\$ 372
Realized carried interest .....	ii	304	42	146	27
Asset management FFO .....		<u>\$ 1,161</u>	<u>\$ 770</u>	<u>\$ 597</u>	<u>\$ 399</u>
Unrealized carried interest					
Generated .....				\$ 1,011	\$ 679
Foreign exchange .....				(65)	24
				<u>946</u>	<u>703</u>
Less: direct costs .....				(260)	(258)
Unrealized carried interest, net .....	iii			<u>686</u>	<u>445</u>
Less: unrealized carried interest not attributable to BAM .....				(78)	(35)
				<u>\$ 608</u>	<u>\$ 410</u>

1. See definition in Glossary of Terms beginning on page 55.

## *i. Fee-Related Earnings*

FOR THE THREE MONTHS ENDED SEP. 30  
(MILLIONS)

	<u>2021</u>	<u>2020</u>
Fee revenues <sup>1</sup>		
Base management fees .....	\$ 783	\$ 634
Incentive distributions .....	72	77
Transaction and advisory fees .....	<u>2</u>	<u>17</u>
	<u>857</u>	<u>728</u>
Less: direct costs .....	<u>(365)</u>	<u>(325)</u>
	492	403
Less: fee-related earnings not attributable to BAM .....	<u>(41)</u>	<u>(31)</u>
Fee-related earnings .....	<u>\$ 451</u>	<u>\$ 372</u>

1. See definition in Glossary of Terms beginning on page 55.

Fee-related earnings increased to \$451 million at our share, mainly due to higher base management fees driven by increased fee-bearing capital, partially offset by lower transaction and advisory fees and increased direct costs.

Base management fees increased by \$149 million to \$783 million, a 24% increase from the same quarter in 2020. The increase is broken down as follows:

- \$75 million increase in our Real Estate segment due to the first close of our fourth flagship fund and higher fee bearing capital for BPY, as last year's results were adversely impacted by a significantly lower public unit price;
- \$37 million increase in our Credit and Other segment due to capital deployed across our closed-end funds and market valuation increases in our open-end and evergreen strategies;
- \$19 million increase from our Infrastructure segment, primarily as a result of BIP's increased market capitalization and a capital market issuance by BIPC related to the recent IPL transaction;
- \$9 million increase from our Private Equity segment due to the increased market capitalization of BBU; and
- \$9 million increase from our Renewable Power and Transition segment as a result of the increased market capitalization of BEP compared to prior year.

Incentive distributions across our perpetual affiliates decreased by \$5 million to \$72 million, a 6% decrease from 2020. This is primarily due to the absence of BPY's incentive distributions fees following the privatization, partially offset by higher incentive distributions earned from BIP and BEP due to higher distribution levels.

Direct costs consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Direct costs increased \$40 million or 12% from the prior year quarter as we continue to scale our asset management franchise, including enhancing our fundraising and client service capabilities as well as developing new complementary strategies.

The margin on our fee-related earnings, including our 62% share of Oaktree's fee-related earnings, was 60% in the current quarter (2020 – 58%). Our fee-related earnings margin, including 100% of Oaktree's fee-related earnings, was 57% in the current quarter (2020 – 55%). The Brookfield margin on a standalone basis was 66% for the quarter, higher than the prior period margin of 65%.

## *ii. Realized Carried Interest*

We realize carried interest when a fund's cumulative returns are in excess of preferred returns and are no longer subject to future investment performance (e.g., subject to "clawback"). During the quarter, we realized \$146 million of carried interest, net of direct costs (2020 – \$27 million). Realizations during the quarter were primarily driven by monetization activities in our Infrastructure, Credit and Real estate businesses.

We provide supplemental information and analysis below on the estimated amount of unrealized carried interest (see Section iii) that has accumulated based on fund performance up to the date of the consolidated financial statements.

### iii. Unrealized Carried Interest

The amounts of accumulated unrealized carried interest and associated costs are not included in our Consolidated Balance Sheets or Consolidated Statements of Operations as they are still subject to clawback. These amounts are shown in the following table:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2021			2020		
	Carried Interest	Direct Costs	Net	Carried Interest	Direct Costs	Net
Accumulated unrealized, beginning of period .....	\$ 6,208	\$ (2,292)	\$ 3,916	\$ 3,334	\$ (1,244)	\$ 2,090
In-period change						
Unrealized in period .....	1,011	(276)	735	679	(254)	425
Foreign currency revaluation .....	(65)	16	(49)	24	(4)	20
	946	(260)	686	703	(258)	445
Less: realized .....	(304)	123	(181)	(42)	13	(29)
	642	(137)	505	661	(245)	416
Accumulated unrealized, end of period .....	6,850	(2,429)	4,421	3,995	(1,489)	2,506
Carried interest not attributable to BAM shareholders .....	(953)	499	(454)	(476)	251	(225)
Accumulated unrealized, end of period, net .....	\$ 5,897	\$ (1,930)	\$ 3,967	\$ 3,519	\$ (1,238)	\$ 2,281

Unrealized carried interest generated in the current quarter before foreign exchange and associated costs was \$1.0 billion and primarily related to increased valuations across our strategies.

Accumulated unrealized carried interest totaled \$5.9 billion at September 30, 2021. We estimate approximately \$1.9 billion of associated costs related to the future realization of the accumulated amounts to date, predominantly related to employee long-term incentive plans and taxes that will be incurred. We expect to recognize \$2.2 billion of this carry, before costs, within the next three years; however, realization of this carried interest is dependent on future investment performance and the timing of monetizations.

1. See definition in Glossary of Terms beginning on page 55.

## 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 as at September 30, 2021 and December 31, 2020 and for the three months ended September 30, 2021 and 2020. We present the operating results of our Real Estate segment, which include our investment in BPY and in other directly held real estate investments, within three sub-segments. The sub-segments are based on our strategy to maintain an irreplaceable portfolio of trophy mixed-use precincts in global gateway cities (“Core”), maximize returns through a development or buy-fix-sell strategy (“Transitional and Development”), or reinvest proceeds received from vintage funds (“LP Investments”). We also separately manage certain corporate activities for these underlying investments.

		Revenues		FFO		Common Equity	
		2021	2020	2021	2020	2021	2020
AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)							
	Ref.						
Brookfield Property Group <sup>1</sup>	i	\$ 2,580	\$ 2,202	\$ 201	\$ 97	\$ 30,010	\$ 19,331
Realized disposition losses	ii	—	—	(54)	(7)	—	—
		<u>\$ 2,580</u>	<u>\$ 2,202</u>	<u>\$ 147</u>	<u>\$ 90</u>	<u>\$ 30,010</u>	<u>\$ 19,331</u>

1. See “Economic ownership interest” in the Glossary of Terms beginning on page 55.

Revenues and FFO, excluding realized disposition losses, from our real estate operations increased by \$378 million and \$104 million, respectively, due to increased earnings from the hospitality portfolio held within our LP Investments, same-property NOI growth in our office and retail assets, and the favorable impact of foreign currency translation. These increases were partially offset by higher management fee expenses and modest losses on dispositions during the period.

### i. Brookfield Property Group

The following table disaggregates BPG’s FFO by business line to facilitate analysis of the quarter-over-quarter variances:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		2021	2020
Core		\$ 143	\$ 147
Transitional and Development		145	85
LP Investments		78	33
Corporate		(118)	(86)
Attributable to BPG		248	179
Non-controlling interests		(23)	(67)
Segment reallocation and other <sup>1</sup>		(24)	(15)
Brookfield’s interest		<u>\$ 201</u>	<u>\$ 97</u>

1. Reflects preferred dividend distributions as well as fee-related earnings, net carried interest and associated asset management expenses not included in FFO reclassified to the Asset Management segment.

BPG’s FFO for the third quarter of 2021 was \$201 million compared to \$97 million in the prior year quarter. Key variances for our businesses are described on the following page.

### *Core*

FFO of \$143 million was \$4 million lower compared to the prior year quarter primarily due to:

- the cessation of capitalized interest on recently completed development projects; partially offset by
- contractual same-property NOI growth; and
- higher overage and percentage rents.

### *Transitional and Development*

FFO of \$145 million was \$60 million higher than the prior year quarter due to growth in same-property NOI and higher fee revenue. These increases were partially offset by the absence of contributions from asset sales during the last twelve months.

### *LP Investments*

FFO of \$78 million was \$45 million higher than the prior year quarter due to:

- increased earnings in our hospitality assets as the sector recovered from the economic shutdowns; and
- the favorable impact of foreign exchange; partially offset by
- disposition activities across the portfolio.

### *Corporate*

Corporate expenses within our Real Estate segment of \$118 million, includes interest expense, management fees and other costs, increased by \$32 million from the prior year quarter, primarily due to higher management fees and interest expense on incremental borrowing relative to prior year.

### ***ii. Realized Disposition Losses***

Realized disposition losses of \$54 million in the current year quarter and \$7 million in the prior year quarter primarily relate to sales of investment properties in our LP investments portfolio.

### **Common Equity**

Common equity in our Real Estate segment increased to \$30.0 billion as at September 30, 2021 compared to \$19.3 billion as at December 31, 2020. The increase relates to the privatization of BPY, which completed on July 26, 2021, and comprehensive income for the nine months ended September 30, 2021, which were partially offset by distributions.

# Renewable Power and Transition

## Summary of Operating Results

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	Ref.	Revenues		FFO		Common Equity	
		2021	2020	2021	2020	2021	2020
Brookfield Renewable <sup>1</sup>	i	\$ 1,074	\$ 954	\$ 81	\$ 72	\$ 3,619	\$ 4,573
Energy contracts	ii	(6)	3	(21)	(11)	641	581
Realized disposition (losses) gains	iii	—	—	(2)	3	—	—
		<u>\$ 1,068</u>	<u>\$ 957</u>	<u>\$ 58</u>	<u>\$ 64</u>	<u>\$ 4,260</u>	<u>\$ 5,154</u>

1. Brookfield's interest in BEP consists of 194.5 million redemption-exchange units, 68.7 million Class A limited partnership units, 4.0 million general partnership units, as well as 44.8 million Class A shares in Brookfield Renewable Corporation ("BEPC"), together representing an economic interest of 48% of BEP.

Compared to the prior year quarter, revenues increased by \$111 million and FFO excluding realized disposition gains decreased by \$1 million. The increase in revenues was driven by contributions from organic growth initiatives and recent acquisitions, favorable hydroelectric generation, as well as higher realized prices across most markets. These increases were partially offset by recently completed asset sales and a lower ownership stake in BEP versus prior year.

### i. Brookfield Renewable

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

FOR THE THREE MONTHS ENDED SEP. 30 (GIGAWATT HOURS AND MILLIONS)	Actual Generation (GWh) <sup>1</sup>		Long-Term Average (GWh) <sup>1</sup>		FFO	
	2021	2020	2021	2020	2021	2020
Hydroelectric <sup>2</sup>	3,930	3,606	4,310	4,295	\$ 142	\$ 107
Wind <sup>2</sup>	1,266	1,345	1,478	1,554	69	50
Solar <sup>2</sup>	556	512	651	592	61	51
Energy transition <sup>2</sup>	373	290	258	177	48	33
Corporate	—	—	—	—	(110)	(84)
Attributable to unitholders	<u>6,125</u>	<u>5,753</u>	<u>6,697</u>	<u>6,618</u>	<u>210</u>	<u>157</u>
Non-controlling interests and other <sup>3</sup>					(120)	(82)
Segment reallocation <sup>4</sup>					(9)	(3)
Brookfield's interest					<u>\$ 81</u>	<u>\$ 72</u>

1. Proportionate to BEP; see "Proportionate basis generation" in Glossary of Terms beginning on page 55.

2. BEP reclassified its segments during the last twelve months. Comparative figures have been restated to conform with the new segment presentation.

3. Includes incentive distributions paid to Brookfield of \$20 million (2020 – \$17 million) as the general partner of BEP.

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

BEP's FFO for the third quarter of 2021 was \$210 million, of which our share was \$81 million, compared to \$72 million in the prior year quarter. Generation for the quarter totaled 6,125 GWh, 9% below the long-term average ("LTA")<sup>1</sup>. However, this represents a 6% increase in actual generation compared to the prior year quarter, mainly attributable to recent acquisitions and stronger hydrology. Key variances for our businesses are described on the following page.

1. See definition in Glossary of Terms beginning on page 55.

### *Hydroelectric*

FFO in the quarter was \$35 million higher than the prior year quarter due to the aforementioned favorable generation, higher realized market prices across most markets and the benefits of inflation indexation.

### *Wind*

FFO in the current quarter included a \$19 million gain on the sale of certain development assets in the U.S. Excluding this gain, FFO of \$50 million was consistent compared with the prior year quarter.

### *Solar*

FFO was \$10 million higher than the prior year quarter mainly as a result of our increased ownership in TerraForm Power, Inc. (“TERP”)<sup>1</sup> and recently constructed solar assets.

### *Energy Transition*

FFO from our energy transition business increased by \$15 million from the prior year quarter due to the growth of our distributed generation portfolio through our increased ownership in TERP, as well as other recent acquisitions.

### *Corporate*

The corporate FFO loss increased by \$26 million as a result of an increase in management fees due to the higher market capitalization of BEP.

## ***ii. Energy Contracts***

During the quarter, we purchased 823 GWh (2020 – 394 GWh) from BEP at \$78 per MWh (2020 – \$81 per MWh) and sold the purchased generation at an average selling price of \$52 per MWh (2020 – \$53 per MWh). As a result, we incurred an FFO deficit of \$21 million compared to a deficit of \$11 million in the prior year quarter.

## ***iii. Realized Disposition (Losses) Gains***

Disposition losses of \$2 million for the quarter relate to the sale of our wind portfolio in the U.S.

The prior period disposition gains of \$3 million related to the sale of our interest in solar assets located in South Africa.

## **Common Equity**

Common equity in our Renewable Power and Transition segment decreased to \$4.3 billion as at September 30, 2021 from \$5.2 billion as at December 31, 2020. The contributions from FFO were more than offset by the foreign exchange impact on invested capital denominated in foreign currencies as well as the secondary offering of BEPC shares in the first quarter of 2021. Our renewable power and transition PP&E 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. For further information, refer to our Revaluation Method for PP&E within Part 5 – Accounting Policies and Internal Controls.

1. See definition in Glossary of Terms beginning on page 55.

## 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.

		Revenues		FFO		Common Equity	
		2021	2020	2021	2020	2021	2020
AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		Ref.					
Brookfield Infrastructure <sup>1</sup>	i	\$ 2,984	\$ 2,271	\$ 101	\$ 90	\$ 1,915	\$ 1,920
Sustainable resources and other	ii	33	52	2	2	378	632
Realized disposition gains	iii	—	—	145	152	—	—
		<u>\$ 3,017</u>	<u>\$ 2,323</u>	<u>\$ 248</u>	<u>\$ 244</u>	<u>\$ 2,293</u>	<u>\$ 2,552</u>

1. Brookfield's interest consists of 122.0 million redemption-exchange units, 0.2 million limited partnership units, 1.6 million general partnership units of BIP LP, as well as 8.7 million Class A shares in Brookfield Infrastructure Corporation ("BIPC"), together representing an economic interest of approximately 27% of BIP.

Revenues and FFO excluding realized disposition gains generated by our Infrastructure segment increased by \$694 million and \$11 million, respectively, compared to the prior period. This was driven by organic growth across our operations and the contribution from acquisitions completed in the last twelve months. These increases were partially offset by recent dispositions and higher management fee expenses.

### i. Brookfield Infrastructure

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

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)		2021	2020
Utilities <sup>1</sup>		\$ 182	\$ 169
Transport <sup>1</sup>		181	154
Midstream <sup>1</sup>		103	66
Data		58	50
Corporate		(102)	(74)
Attributable to unitholders		422	365
Non-controlling interests and other <sup>2</sup>		(317)	(272)
Segment reallocation <sup>3</sup>		(4)	(3)
Brookfield's interest		<u>\$ 101</u>	<u>\$ 90</u>

1. BIP reclassified its segments during the last twelve months. Comparative figures have been restated to conform with the new segment presentation.

2. Includes incentive distributions paid to Brookfield of \$52 million (2020 – \$46 million) as the general partner of BIP.

3. Segment reallocation refers to certain items, net of NCI, included in BIP's FFO that we reclassify. This allows us to present FFO attributable to unitholders on the same basis as BIP in the table above.

BIP's FFO for the third quarter of 2021 was \$422 million, of which our share was \$101 million compared to \$90 million in the prior year quarter. Key variances for our businesses are described below and on the following page.

#### Utilities

FFO in our utilities operations of \$182 million was \$13 million higher than the prior year quarter. The increase was primarily due to:

- a recovery in connections activity at our U.K. regulated distribution business as pandemic related restrictions impacted prior year;
- contributions associated with the acquisition of the remaining interest in our Brazilian regulated gas transmission operation, completed in the prior quarter; and
- benefits of inflation indexation and capital commissioned; partially offset by

- the sales of our portfolio of smart meters in the U.K. and our district energy operations in North America over the last twelve months.

### *Transport*

FFO in our transport operations of \$181 million was \$27 million higher than the prior year quarter. The increase is primarily due to:

- inflationary tariff increases and an increase in toll road volumes driven by higher activity globally; and
- contributions from our recent acquisition of our U.S. LNG export terminal; partially offset by
- the absence of contributions associated with the partial sale of our Australian export terminal in the prior year.

### *Midstream*

FFO from our midstream operations of \$103 million was \$37 million higher than the prior year quarter. The increase is primarily due to:

- higher transportation volumes in the U.S. associated with strong customer demand and increased market sensitive revenues across our operations;
- contributions from our acquisition of IPL in the current quarter; and
- the commissioning of our expansion project at our U.S. gas pipeline; partially offset by
- the monetization of a 12.5% ownership in our U.S. gas pipeline in the first quarter.

### *Data*

FFO from our data operations of \$58 million was \$8 million higher than the prior year quarter primarily due to organic growth supported by the build out of towers and contributions from our Indian telecom business acquired in the third quarter of 2020, as well as the roll-out of our fiber-to-the-home program at our French telecom business.

### *Corporate*

The Corporate FFO deficit of \$102 million increased by \$28 million from the prior year quarter largely as a result of higher base management fees from a higher BIP market capitalization.

### ***ii. Sustainable Resources and Other***

FFO at our sustainable resources operations remained consistent compared with the prior year quarter.

### ***iii. Realized Disposition Gains***

In the current quarter, disposition gains of \$145 million relate to the sale of our U.S. district energy operation.

The prior period disposition gains of \$152 million primarily relate to a gain recognized on a secondary offering of BIPC shares and the sale of our stake in a Texas transmission business.

## **Common Equity**

Common equity in our Infrastructure segment was \$2.3 billion as at September 30, 2021 (December 31, 2020 – \$2.6 billion). The contributions from earnings were more than offset by the depreciation of foreign currencies against the U.S. dollar, as well as distributions to unitholders.

This equity is primarily our investment in PP&E 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 and Transition segments, where a larger portion of the balance sheet is subject to revaluations.

## 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. We have provided additional detail, where referenced, to explain significant movements from the prior period.

	Ref.	Revenues		FFO		Common Equity	
		2021	2020	2021	2020	2021	2020
AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)							
Brookfield Business Partners <sup>1</sup>	i	\$ 12,051	\$ 10,082	\$ 177	\$ 132	\$ 2,706	\$ 2,175
Other investments	ii	9	9	17	117	796	1,790
Realized disposition gains	iii	—	—	239	—	—	—
		<u>\$ 12,060</u>	<u>\$ 10,091</u>	<u>\$ 433</u>	<u>\$ 249</u>	<u>\$ 3,502</u>	<u>\$ 3,965</u>

1. Brookfield's interest in BBU consists of 69.7 million redemption-exchange units, 24.8 million limited partnership units and eight general partnership units together representing an economic interest of 64% of BBU.

Revenues generated from our private equity operations increased by \$2.0 billion, primarily due to higher prices and volumes at our road fuels operation, as well as favorable pricing and mix and an increased aftermarket demand at our advanced energy storage operations. These increases were partially offset by the partial sale of our stake in our graphite electrode operations in the first and second quarter of 2021.

FFO, excluding disposition gains, decreased by \$55 million to \$194 million, primarily due to the absence of contributions from Norbord subsequent to the West Fraser – Norbord strategic business combination, as well as the aforementioned partial sale of our graphite electrode operations. These decreases were partially offset by additional contributions from our residential mortgage insurer due to higher premiums earned and our increased ownership. Disposition gains of \$239 million in the current quarter relate to the partial sell-down of our investment in West Fraser.

### i. Brookfield Business Partners

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

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	2021	2020
Business services	\$ 109	\$ 62
Infrastructure services	91	78
Industrials	101	86
Corporate	(25)	(18)
Attributable to unitholders	276	208
Non-controlling interests	(99)	(76)
Brookfield's interest	<u>\$ 177</u>	<u>\$ 132</u>

BBU generated \$276 million of FFO compared to \$208 million in the prior period of which our share of BBU's FFO was \$177 million, excluding disposition gains, compared to \$132 million in the prior year quarter. Key variances for our businesses are described on the following page.

### *Business Services*

Business services' FFO increased by \$47 million to \$109 million primarily due to:

- strong business performance at our residential mortgage insurer as a result of higher premiums earned and lower mortgage default rates due to the strong Canadian housing market, as well as our increased ownership in the business; and
- higher contributions from our construction operations as a result of strong project execution and normalized productivity levels as the prior period was impacted by the pandemic related economic shutdown; partially offset by
- incremental tax expense resulting from higher taxable earnings.

### *Infrastructure Services*

Within our infrastructure services operations, we generated \$91 million of FFO, compared to \$78 million in the prior year quarter. The increase was primarily due to improved contributions at our offshore oil services; partially offset by higher labor costs at our work access services business.

### *Industrials*

FFO from our industrials portfolio increased by \$15 million to \$101 million due to:

- increased contributions from our advanced energy storage operations as a result of favorable pricing and mix due to increased aftermarket demand; partially offset by
- lower contributions from our graphite electrode operations as a result of our decreased ownership stake.

### *Corporate*

The Corporate FFO deficit increased by \$7 million due to increases in base management fees as a result of the increased market capitalization of BBU versus prior year.

### *ii. Other Investments*

FFO from other investments decreased by \$100 million to \$17 million as a result of the absence of contributions from Norbord after our investment was converted into West Fraser's shares subsequent to West Fraser's acquisition of Norbord. Since the first quarter of 2021, our shares in West Fraser have been accounted for as a financial asset and therefore, this investment contributes to our FFO through the dividends received.

### *iii. Realized Disposition Gains*

In the current quarter, realized disposition gains of \$239 million relate to the partial sale of our West Fraser investment, whereas the prior period had no disposition gains.

## **Common Equity**

Common equity in our Private Equity segment was \$3.5 billion as at September 30, 2021 (December 31, 2020 – \$4.0 billion). The decrease is primarily attributable to the partial sell-down of some of our investments, foreign currency translation, distributions to unitholders and depreciation expense. These decreases were partially offset by contributions from FFO. The depreciable 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:

	Revenues		FFO		Common Equity	
	2021	2020	2021	2020	2021	2020
AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)						
North America .....	\$ 507	\$ 512	\$ 85	\$ 36	\$ 1,996	\$ 2,119
Brazil and other .....	40	83	(9)	1	561	611
	<u>\$ 547</u>	<u>\$ 595</u>	<u>\$ 76</u>	<u>\$ 37</u>	<u>\$ 2,557</u>	<u>\$ 2,730</u>

### *North America*

FFO from our North American operations increased by \$49 million to \$85 million. The difference is largely driven by higher housing margins due to increased home prices and the favorable product mix of closings, as well as additional joint venture income.

As at September 30, 2021, we had 71 active housing communities (September 30, 2020 – 79) and 18 active land communities (September 30, 2020 – 25).

### *Brazil and Other*

FFO at our Brazilian and other operations decreased compared to the prior year quarter, as project deliveries were pushed out to future quarters while Q3 2020 saw four project deliveries in that period.

Our Brazilian operations began 2021 with 24 projects under construction and as of September 30, 2021, we have 22 projects under construction.

### *Common Equity*

Common equity was \$2.6 billion as at September 30, 2021 (December 31, 2020 – \$2.7 billion) and consists largely of residential development inventory which is carried at the lower of cost and market value, notwithstanding the length of time that we may have held these assets and created value through the development process. The decrease in common equity is primarily attributable to dividends received from our North America operation as a result of strong business performance.

## Summary of Operating Results

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

	Revenues		FFO		Common Equity	
	2021	2020	2021	2020	2021	2020
AS AT SEP. 30, 2021 AND DEC. 31, 2020 AND FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)						
Corporate cash and financial assets, net .....	\$ (18)	\$ 87	\$ (29)	\$ 80	\$ 3,042	\$ 4,456
Corporate borrowings .....	—	—	(111)	(98)	(10,309)	(9,077)
Preferred equity <sup>1,2</sup> .....	—	—	—	—	(4,375)	(4,375)
Other corporate investments .....	3	110	22	(3)	2,154	1,268
Corporate costs and taxes/net working capital .....	—	—	(33)	(37)	787	742
Realized disposition gains .....	—	—	—	14	—	—
	<u>\$ (15)</u>	<u>\$ 197</u>	<u>\$ (151)</u>	<u>\$ (44)</u>	<u>\$ (8,701)</u>	<u>\$ (6,986)</u>

1. FFO excludes preferred share distributions of \$39 million (2020 – \$34 million).

2. Includes \$230 million of perpetual subordinated notes issued in November 2020 by a wholly owned subsidiary of Brookfield, included within non-controlling interest.

Our portfolio of corporate cash and financial assets is generally recorded at fair value with changes recognized 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, 2021, our portfolio of corporate cash and financial assets included \$1.7 billion of cash and cash equivalents (December 31, 2020 – \$3.2 billion). The decrease from December 31, 2020 is largely attributable to \$3.4 billion of cash deployed for the BPY privatization, \$2.0 billion used to repay high coupon debt, dividends paid to shareholders, funding of capital calls in our BSREP III and other funds, and the repurchase of 8.7 million Class A shares. These decreases were partially offset by proceeds received from the partial sale of West Fraser, the secondary offering of BEPC shares in the first quarter as well as corporate debt issuances, operating cash flow and other asset sales during the last nine months.

Our corporate cash and financial assets recorded a FFO deficit of \$29 million in the third quarter of 2021, which was \$109 million lower than the prior year quarter, primarily due to lower unrealized returns on our financial asset portfolio in the quarter.

Corporate borrowings are generally issued with fixed interest rates. Some of these borrowings are denominated in Canadian dollars and therefore the carrying value fluctuates with changes in the foreign 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 \$111 million FFO expense reported through corporate borrowings reflects the interest expense on all of our corporate borrowings. The increase from the prior year quarter was primarily the result of corporate debt issuances over the last twelve months, and the impact of foreign exchange on our Canadian dollar denominated corporate debt.

Preferred equity does not revalue under IFRS and the total outstanding shares remain unchanged from year-end.

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

Other corporate investments includes our equity accounted investment in Brookfield Asset Management Reinsurance Partners Ltd (“BAMR”), as part of the spin-off in the previous quarter. Additionally, these investments include the corporate cash and financial assets of Oaktree which was acquired in the third quarter of 2019. The increase in FFO is primarily from strong returns on Oaktree’s balance sheet investments.

Corporate costs and taxes/net working capital were collectively in an asset position of \$787 million as at September 30, 2021, a decrease from the prior year asset balance of \$742 million. Included within this balance are net deferred income tax assets of \$1.9 billion (December 31, 2020 – \$1.7 billion). The FFO deficit of \$33 million includes corporate costs and cash taxes, which were relatively consistent with the prior year quarter.

## PART 4 – CAPITALIZATION AND LIQUIDITY

### 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.

*Corporate Capitalization*<sup>1</sup> – 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, 2021, our corporate capitalization was \$59.6 billion (December 31, 2020 – \$50.5 billion) with a debt to capitalization of 17% (December 31, 2020 – 18%).

*Consolidated Capitalization*<sup>1</sup> – reflects the full capitalization of wholly owned, partially owned, and managed entities that we consolidate in our financial statements. At September 30, 2021, 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. Much of the borrowings issued within our managed entities are included in our consolidated balance sheet notwithstanding that virtually none of this debt has any recourse to the Corporation.

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	Ref.	Corporate		Consolidated	
		2021	2020	2021	2020
Corporate borrowings	i	\$ 10,309	\$ 9,077	\$ 10,309	\$ 9,077
Non-recourse borrowings					
Subsidiary borrowings	i	—	—	13,370	10,768
Property-specific borrowings	i	—	—	142,795	128,556
		<u>10,309</u>	<u>9,077</u>	<u>166,474</u>	<u>148,401</u>
Accounts payable and other		5,040	4,963	52,087	50,682
Deferred income tax liabilities		1,102	432	17,729	15,913
Subsidiary equity obligations		—	—	3,790	3,699
Liabilities associated with assets classified as held for sale		—	—	1,773	2,359
Equity					
Non-controlling interests		230	230	80,618	86,804
Preferred equity	ii	4,145	4,145	4,145	4,145
Common equity	iii	38,808	31,693	38,808	31,693
		<u>43,183</u>	<u>36,068</u>	<u>123,571</u>	<u>122,642</u>
Total capitalization		<u>\$ 59,634</u>	<u>\$ 50,540</u>	<u>\$ 365,424</u>	<u>\$ 343,696</u>
Debt to capitalization		<u>17%</u>	<u>18%</u>	<u>46%</u>	<u>43%</u>

#### i. Borrowings

##### Corporate Borrowings

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2021	2020	2021	2020	2021	2020
Term debt	4.2%	4.4%	14	14	\$ 10,037	\$ 9,147
Revolving facilities	—%	—%	5	4	350	—
Deferred financing costs	n/a	n/a	n/a	n/a	(78)	(70)
Total					<u>\$ 10,309</u>	<u>\$ 9,077</u>

As at September 30, 2021, corporate borrowings included term debt of \$10.0 billion (December 31, 2020 – \$9.1 billion) which had an average term to maturity of 14 years (December 31, 2020 – 14 years). Term debt consists of public and private bonds, all of which are fixed rate and have maturities ranging from March 2024 until 2080. These financings provide an important source of long-term capital and are appropriately matched to our long-term asset profile.

1. See definition in Glossary of Terms beginning on page 55.

The increase in term debt compared to the prior year is predominantly due to the \$600 million green bond financing and \$250 million re-opening of our 2051 notes in the third quarter of 2021 as we strengthened our liquidity position during the period.

We had \$350 million of commercial paper outstanding at September 30, 2021 (December 31, 2020 – \$nil). Our commercial paper program is supported by our \$2.6 billion revolving term credit facilities with maturities ranging from 2024 to 2026. As at September 30, 2021, \$62 million of the facilities were utilized for letters of credit (December 31, 2020 – \$64 million).

### ***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, 2021 AND DEC. 31, 2020 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2021	2020	2021	2020	2021	2020
Real estate .....	2.9%	3.1%	4	3	\$ 4,747	\$ 3,378
Renewable power and transition .....	3.1%	3.9%	10	13	2,640	2,132
Infrastructure .....	2.8%	2.7%	9	6	3,379	3,158
Private equity .....	2.6%	2.4%	5	3	751	310
Residential development .....	5.3%	5.5%	7	6	1,853	1,790
Total .....	3.2%	3.5%	7	7	\$ 13,370	\$ 10,768

Subsidiary borrowings include perpetual affiliates' recourse term debt and credit facility draws. It generally has no recourse to the Corporation.

### ***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 or the relevant perpetual affiliate.

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (\$ MILLIONS)	Average Rate		Average Term (Years)		Consolidated	
	2021	2020	2021	2020	2021	2020
Real estate .....	3.6%	3.8%	4	4	\$ 72,488	\$ 67,073
Renewable power and transition .....	4.3%	4.3%	9	10	18,163	16,353
Infrastructure .....	3.9%	4.3%	6	8	29,969	21,309
Private equity and other .....	4.6%	5.2%	5	5	21,569	23,333
Residential development .....	2.8%	5.1%	2	3	606	488
Total .....	3.9%	4.2%	5	6	\$ 142,795	\$ 128,556

Property-specific borrowings have increased by \$14.2 billion since December 31, 2020. The increase in borrowings is largely attributable to acquisitions in our Infrastructure and Renewable Power and Transition businesses, along with refinancings completed in our Real Estate segment.

### ***Fixed and Floating Interest Rate Exposure***

Many of our borrowings, including all corporate borrowings recourse to the Corporation, are fixed rate, long-term financings. The remainder of our borrowings are at floating rates; however, from time to time, we enter into interest rate contracts to swap our floating rate exposure to fixed rates.

As at September 30, 2021, 71% of our share of debt outstanding, reflecting swaps, was fixed rate. 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, 2021 AND DEC. 31, 2020 (MILLIONS)	Fixed Rate				Floating Rate			
	2021		2020		2021		2020	
	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated	Average Rate	Consolidated
Corporate borrowings .....	4.2%	\$ 10,309	4.4%	\$ 9,077	—%	\$ —	—%	\$ —
Subsidiary borrowings .....	4.0%	8,476	4.3%	7,683	1.9%	4,894	1.7%	3,085
Property-specific borrowings .....	4.8%	53,908	5.2%	54,699	3.4%	88,887	3.4%	73,857
Total .....	4.6%	\$ 72,693	5.0%	\$ 71,459	3.4%	\$ 93,781	3.4%	\$ 76,942

### Non-controlling interests

In July 2021, we completed the privatization of BPY and own a 100% stake in the business. As a result of the privatization, non-controlling interests decreased in the third quarter of 2021.

### ii. Preferred Equity

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	Term	Average Rate			
		2021		2020	
		Average Rate	Consolidated	Average Rate	Consolidated
Fixed rate-reset .....	Perpetual	4.1%	4.1%	\$ 2,875	\$ 2,875
Fixed rate .....	Perpetual	4.8%	4.8%	739	739
Floating rate .....	Perpetual	2.2%	1.8%	531	531
Total .....		4.0%	3.9%	\$ 4,145	\$ 4,145

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, 2021 was 284 basis points.

### iii. Common Equity

#### Issued and Outstanding Shares

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

AS AT AND FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2021	2020 <sup>1</sup>	2021	2020 <sup>1</sup>
	Outstanding at beginning of period .....	1,506.7	1,511.5	1,510.7
Issued (repurchased)				
Issuances .....	61.3	—	61.3	—
Repurchases .....	(2.1)	(0.7)	(8.7)	(6.2)
Long-term share ownership plans <sup>2</sup> .....	2.1	1.4	4.7	9.0
Dividend reinvestment plan and others .....	—	0.1	—	0.2
Outstanding at end of period .....	1,568.0	1,512.3	1,568.0	1,512.3
Unexercised options and other share-based plans <sup>2</sup> and exchangeable shares of affiliate .....	82.3	58.6	82.3	58.6
Total diluted shares at end of period .....	1,650.3	1,570.9	1,650.3	1,570.9

1. 2020 adjusted to reflect the three-for-two-stock split effective April 1, 2020.

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

The company holds 69.9 million Class A shares (September 30, 2020 – 61.5 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 22.3 million (September 30, 2020 – 8.7 million) shares issuable in respect of these plans based on the market value of the Class A shares at September 30, 2021 and September 30, 2020, resulting in a net reduction of 47.6 million (September 30, 2020 – 52.8 million) diluted shares outstanding.

During the third quarter of 2021, 1.2 million options were exercised, of which 0.5 million were issued on a net-settled basis, resulting in the cancellation of 0.7 million vested options.

The cash value of unexercised options was \$1.3 billion as at September 30, 2021 (2020 – \$1.2 billion) based on the proceeds that would be paid on exercise of the options.

During the quarter, the issuance of 61.3 million Class A shares were primarily due to the share consideration contributed as part of the BPY privatization.

As of November 12, 2021, the Corporation had outstanding 1,568,195,791 Class A shares and 85,120 Class B shares. Refer to Note 12 of the consolidated financial statements for additional information on equity.

## **LIQUIDITY**

### **Corporate Liquidity**

We maintain significant liquidity at the corporate level. Our primary sources of liquidity, which we refer to as core liquidity, consist of:

- cash and financial assets, net of other associated liabilities; and
- undrawn committed credit facilities.

We further assess overall liquidity inclusive of our principal subsidiaries BPG, BEP, BIP, BBU and Oaktree because of their role in funding acquisitions both directly and through our managed funds. Overall core liquidity at quarter-end was \$14 billion, or inclusive of investor commitments to our private funds, was \$80 billion.

### **Capital Requirements**

The Corporation has very few non-discretionary capital requirements. Our largest normal course capital requirement is our debt maturities and there are no corporate debt maturities until March 2024 when \$400 million (C\$500 million) is due. Periodically, we will fund acquisitions and seed new investment strategies.

At the perpetual affiliate level, the largest normal course capital requirements are debt maturities and the pro-rata share of private fund capital calls. New acquisitions are primarily funded through the private funds or perpetual affiliates 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 perpetual affiliates. In the case of our real estate, infrastructure and private equity funds, these commitments are expected to be funded by BPG, BEP, BIP and BBU. On January 31, 2019, the Corporation committed \$2.75 billion to our third flagship real estate fund alongside BPG's \$1 billion commitment. As of September 30, 2021, the Corporation has funded \$1.7 billion of our \$2.75 billion commitment. On May 26, 2021, the Corporation committed \$2.5 billion to our fourth flagship real estate fund. On August 3, 2020, the Corporation committed \$750 million to our latest opportunistic credit fund. As of September 30, 2021, the Corporation has funded \$187.5 million of our \$750 million commitment. In the case of perpetual affiliates, 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.

At the asset level, we schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels. We refer to this as sustaining capital expenditures. The sustaining capital expenditure programs 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 and Total Liquidity

The following table presents core liquidity of the Corporation and operating segments:

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (MILLIONS)	Corporate <sup>1</sup>	Real Estate <sup>1</sup>	Renewable Power and Transition	Infrastructure	Private Equity <sup>1</sup>	Oaktree	Total 2021	Total 2020
Cash and financial assets, net .....	\$ 3,042	\$ 128	\$ 510	\$ 732	\$ 464	\$ 644	\$ 5,520	\$ 6,823
Undrawn committed credit facilities .....	2,177	1,055	1,955	1,770	1,324	650	8,931	9,194
<b>Core liquidity<sup>2</sup></b> .....	<b>5,219</b>	<b>1,183</b>	<b>2,465</b>	<b>2,502</b>	<b>1,788</b>	<b>1,294</b>	<b>14,451</b>	<b>16,017</b>
Uncalled private fund commitments	—	24,303	3,117	11,046	9,450	17,943	65,859	60,594
<b>Total liquidity<sup>2</sup></b> .....	<b>\$ 5,219</b>	<b>\$ 25,486</b>	<b>\$ 5,582</b>	<b>\$ 13,548</b>	<b>\$ 11,238</b>	<b>\$ 19,237</b>	<b>\$ 80,310</b>	<b>\$ 76,611</b>

1. A \$1 billion two-year credit facility which was secured in April 2020 to support growth initiatives was cancelled in March 2021.

2. See definition in Glossary of Terms beginning on page 55.

As at September 30, 2021, the Corporation's core liquidity was \$5.2 billion, consisting of \$3.0 billion in cash and financial assets and \$2.2 billion in undrawn credit facilities. The Corporation's 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 perpetual affiliates and private funds, funding strategic transactions as well as seeding new investment products.

The Corporation also has 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 page 51. However, this is not included in our core liquidity as we are generally able to finance our operations and capital requirements through other means.

During the third quarter of 2021, we generated \$1.2 billion of distributable earnings<sup>1</sup>, inclusive of:

- \$451 million fee-related earnings;
- \$572 million of distributions from our perpetual affiliates, other principal investments, and corporate cash and financial assets; and
- realizations, including \$146 million of realized carried interest and \$223 million of disposition gains from principal investments; partially offset by
- other invested capital earnings, including corporate costs, interest expense, and preferred share dividends, net of equity-based compensation costs, resulting in expenses of \$150 million.

The Corporation paid \$204 million in cash dividends on its common equity during the quarter ended September 30, 2021 (2020 – \$182 million).

1. See definition in Glossary of Terms beginning on page 55.

The following table presents distributable earnings generated by the Corporation:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS)	Three Months Ended		Nine Months Ended	
	2021	2020	2021	2020
Fee revenues	\$ 857	\$ 728	\$ 2,548	\$ 2,069
Direct costs	(365)	(325)	(1,088)	(971)
	492	403	1,460	1,098
Amounts attributable to non-Brookfield shareholders	(41)	(31)	(113)	(81)
<b>Fee-related earnings<sup>1</sup></b>	<b>451</b>	<b>372</b>	<b>1,347</b>	<b>1,017</b>
Perpetual affiliates	509	360	1,319	1,101
Corporate cash and financial assets	(29)	80	64	214
Other principal investments	92	39	155	(67)
<b>Distributions from investments</b>	<b>572</b>	<b>479</b>	<b>1,538</b>	<b>1,248</b>
Corporate borrowings	(111)	(98)	(325)	(282)
Corporate costs and taxes	(33)	(37)	(115)	(113)
	(144)	(135)	(440)	(395)
Preferred share dividends	(39)	(34)	(119)	(105)
Add back: equity-based compensation costs	33	23	89	69
	(150)	(146)	(470)	(431)
<b>Distributable earnings before realizations</b>	<b>873</b>	<b>705</b>	<b>2,415</b>	<b>1,834</b>
<b>Realizations</b>				
Realized carried interest, net <sup>2</sup>	146	27	\$ 574	\$ 117
Disposition gains from principal investments	223	158	1,992	637
<b>Distributable earnings</b>	<b>\$ 1,242</b>	<b>\$ 890</b>	<b>\$ 4,981</b>	<b>\$ 2,588</b>

1. Includes \$65 million for the three months ended September 30, 2021 (2020 – \$49 million), and \$182 million for the nine months ended September 30, 2021 (2020 – \$129 million) of fee-related earnings, net from Oaktree.
2. Includes our share of Oaktree's distributable earnings attributable to realized carried interest.

The following table shows the quoted market value of the company's listed securities and annual cash distributions of the company's invested capital based on current distribution policies for each entity:

AS AT SEP. 30, 2021 (MILLIONS, EXCEPT PER UNIT AMOUNTS)	Ownership %	Brookfield Owned Units	Distributions Per Unit <sup>1</sup>	Quoted Value <sup>2</sup>	Current Distributions (Current Rate) <sup>3</sup>	YTD Distributions (Actual)
<b>Distributions from investments</b>						
<b>Perpetual affiliates</b>						
Brookfield Renewable <sup>4</sup>	48%	312.0	1.22	11,602	\$ 381	\$ 289
Brookfield Infrastructure <sup>5</sup>	27%	132.5	2.04	7,466	270	204
Brookfield Business Partners	64%	94.5	0.25	4,336	24	18
Brookfield Property Group <sup>6</sup>	100%	n/a	n/a	n/a	1,300	737
					1,975	1,248
Corporate cash and financial assets <sup>7</sup>	various	various	various	3,042	244	64
Other investments <sup>8</sup>	various	various	various	various	4	5
<b>Total</b>					<b>\$ 2,223</b>	<b>\$ 1,317</b>

1. Based on current distribution policies.
2. Quoted value represents the value of Brookfield owned units as at market close on September 30, 2021.
3. Distributions (current rate) are calculated by multiplying units held as at September 30, 2021 by distributions per unit. Actual dividends may differ due to timing of dividend increases and payment of special dividends, which are not factored into the current rate calculation. See definition in Glossary of Terms beginning on page 55.
4. Brookfield owned units represent the combined units held in BEP and BEPC. On February 16, 2021, we completed the sale of 15 million class A shares of BEPC.
5. Brookfield owned units represent the combined units held in BIP and BIPC.
6. For the three months ended September 30, 2021, BPG's distributions include nominal amounts of preferred share dividends received by the Corporation (2020 – nominal amounts).
7. Includes cash and cash equivalents and financial assets net of deposits.
8. Other includes cash distributions from our listed investment within our Private Equity segment.

## 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	
	2021	2020	2021	2020
Operating activities .....	\$ 2,225	\$ 2,227	\$ 5,589	\$ 5,525
Financing activities .....	4,859	3,940	4,940	9,404
Investing activities .....	(5,930)	(7,000)	(8,819)	(12,752)
Change in cash and cash equivalents .....	\$ 1,154	\$ (833)	\$ 1,710	\$ 2,177

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

### Operating Activities

Cash flow from operating activities of \$2.2 billion for the three months ended September 30, 2021 reflects the strong cash flow generation of our business. Excluding the net change in non-cash working capital, cash flow from operating activities increased by \$386 million versus the prior year period as a result of same-store growth across our business and contributions from subsidiaries acquired, net of disposals, during the last 12 months.

### Financing Activities

Net cash inflows from financing activities totaled \$4.9 billion in the third quarter of 2021 versus \$3.9 billion in the prior year period, and primarily related to:

- non-recourse borrowings arranged by our subsidiaries, net of repayments, of \$7.0 billion; and
- non-recourse credit facilities drawn, net, of \$2.7 billion related to short-term borrowings backed by private fund commitments; partially offset by
- capital repaid to non-controlling interests, net of capital provided, of \$3.6 billion; and
- distributions to non-controlling interests of \$1.4 billion.

### Investing Activities

Net cash outflows from investing activities were \$5.9 billion in the third quarter of 2021 versus \$7.0 billion in the prior year period, and mainly related to:

- acquisitions of investment properties, net of dispositions, of \$2.4 billion;
- acquisitions of subsidiaries, net of dispositions, of \$1.4 billion primarily associated with acquisitions in our Infrastructure segment;
- additions to PP&E, net of dispositions, of \$1.4 billion; and
- acquisitions of financial assets and other, net of dispositions, of \$420 million primarily as a result of investments in debt and equity securities across our operating segments as well as financial assets associated with managing currency risk.

Refer to our Acquisitions of Consolidated Entities in Note 4 to the consolidated financial statements for further details.

# 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.

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

In making judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis, as required. These estimates have been applied in a manner consistent with 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 in Note 9 of the unaudited September 30, 2021 Consolidated Financial Statements and below.

For further reference on accounting policies, including new and revised standards issued by the IASB and judgments and estimates, see our significant accounting policies contained in Note 2 of the December 31, 2020 consolidated financial statements.

### Consolidated Financial Information

IFRS uses a control-based model to determine if consolidation is required. Therefore, we are deemed to control an investment if we: (1) exercise power over the investee; (2) are exposed to variable returns from our involvement with the investee; and (3) have the ability to use our power to affect the amount of the returns. Due to the ownership structure of many of our subsidiaries, we control entities in which we hold only a minority economic interest. Please refer to Part 2 of Management's Discussion and Analysis in the December 31, 2020 Annual Report for additional information.

#### *i. Investment Properties*

We classify the majority of the property assets within our Real Estate segment as investment properties. Our valuations are prepared at the individual property level by internal investment professionals with the appropriate expertise in the respective industry, geography and asset type. These valuations are updated at each balance sheet date with gains or losses recognized in net income.

We have adjusted capitalization and discount rates in certain assets to reflect changes to risk-free borrowing rates and the current market environment. During the current period, cash flow adjustments have been made as we have taken into account the anticipated outcome of tenant negotiations, leasing downtime, nil-to-minimal rental growth in the near-term and bad debt reserves as new information of the current market is understood.

The majority of underlying cash flows in the models are comprised of contracted leases, many of which are long term, with our core and transitional and development portfolios having a 91% and 88% occupancy level, respectively. The models also include property-level assumptions for renewal probabilities, future leasing rates and capital expenditures. These are reviewed as part of the business planning process and external market data is utilized when determining the cash flows associated with lease renewals.

We test the outcome of our process by having a number of our properties externally appraised each year, including appraisals for core office properties, at least on a three-year rotating basis. We compare the results of the external appraisals to our internally prepared values and reconcile significant differences when they arise. In the current quarter, 22 of our properties were externally appraised, representing a gross property value of \$16 billion of assets; external appraisals were within one percent of management's valuations.

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 key valuation metrics of our real estate assets as of September 30, 2021 and December 31, 2020 are summarized below.

AS AT SEP. 30, 2021 AND DEC. 31, 2020	Core		Transitional and Development		LP Investments		Weighted Average	
	2021	2020	2021	2020	2021	2020	2021	2020
Discount rate .....	5.9%	6.0%	7.3%	7.3%	8.8%	9.2%	7.6%	7.7%
Terminal capitalization rate .....	4.6%	4.6%	5.9%	5.9%	6.3%	6.0%	5.7%	5.6%
Investment horizon (years) .....	11	11	10	10	13	14	12	12

The following table presents the impact on the fair value of our consolidated investment properties as at September 30, 2021 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, 2021 (MILLIONS)	Fair Value	Sensitivity
Core .....	18,937	1,896
Transitional and Development .....	25,941	430
LP investments .....	56,507	2,564
Other investment properties .....	2,108	66
<b>Total</b> .....	<b>\$ 103,493</b>	<b>\$ 4,956</b>

## ii. Revaluation Method for PP&E

PP&E is revalued on a regular basis. The critical estimates and assumptions underlying the valuation of PP&E are set out in Note 10, Property, Plant and Equipment in our December 31, 2020 audited consolidated financial statements. Our PP&E are measured at fair value on a recurring basis with an effective date of revaluation for all asset classes as of December 31, 2020. Refer to Note 10 for further information.

## MANAGEMENT REPRESENTATIONS AND INTERNAL CONTROLS

### Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting due to the global pandemic. We are continually monitoring and assessing our internal controls to minimize the impact of the global pandemic on their design and operating effectiveness.

# 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

“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.

We refer to investors in the Corporation as **shareholders** and we refer to investors in our private funds and perpetual affiliates as **investors**.

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

- We have over 40 active funds across major asset classes: real estate, infrastructure/renewable power, transition and private equity. These funds include core, credit, value-add and opportunistic closed-end funds and core long-life funds. We refer to these funds as our **private funds**.
- We refer to BPG, BEP, BEPC, BIP, BIPC, and BBU as our **perpetual affiliates**.
- We refer to our public securities group as **liquid strategies**. 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:

- **BBU** – Brookfield Business Partners L.P.
- **BEP** – Brookfield Renewable Partners L.P.
- **BEPC** – Brookfield Renewable Corporation
- **BIP** – Brookfield Infrastructure Partners L.P.
- **BIPC** – Brookfield Infrastructure Corporation
- **BPG** – Brookfield Property Group
- **BPY** – Brookfield Property Partners L.P.
- **BSREP III** – Brookfield Strategic Real Estate Partners III
- **Forest City** – Forest City Realty Trust, Inc.
- **IPL** – Inter Pipeline Ltd.
- **Norbord** – Norbord Inc.
- **Oaktree** – Oaktree Capital Management
- **Summit DigiTel** – Summit Digital Infrastructure Pvt. Ltd.
- **TERP** – TerraForm Power, Inc.
- **West Fraser** – West Fraser Timber Co.

## Performance Measures

Definitions of performance measures, including IFRS, non-IFRS and operating measures, are presented below in alphabetical order. We have specifically identified those measures which are IFRS or non-IFRS measures; the remainder are 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. 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. Brookfield’s methodology for determining AUM may differ from the methodology employed by other alternative asset managers and Brookfield’s AUM presented herein may differ from our AUM reflected in other public filings and/or our Form ADV and Form PF.

**Base management fees**, which are determined by contractual arrangements, are typically equal to a percentage of fee-bearing capital and are accrued quarterly. Base management fees, including private fund base fees and perpetual affiliate base fees, are IFRS measures.

**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.

**Perpetual affiliate base fees** are earned on the total capitalization or net asset value of our perpetual affiliates, which includes our investment. Base fees for BEP include a quarterly fixed fee amount of \$5 million, with additional fees of 1.25% on the increase in capitalization above their initial capitalization of \$8 billion. Base fees for BIP and BBU are 1.25% of total capitalization. Base fees for BPG are 1.05% of net asset value, excluding its interests in private funds and investments which were held directly by Brookfield prior to the recent BPY privatization. Perpetual affiliate capitalization as at September 30, 2021, was as follows: BEP/BEPC – \$29.0 billion; BIP/BIPC – \$31.4 billion; BBU – \$7.2 billion; and BPG – \$20.4 billion.

**Carried interest** is a contractual arrangement whereby we receive a fixed percentage of investment gains generated within a private fund provided that the investors receive a pre-determined minimum return. Carried interest is typically paid towards the end of the life of a fund after the capital has been returned to investors and may be subject to “clawback” until all investments have been monetized and minimum investment returns are sufficiently assured.

**Realized carried interest** is an IFRS measure and 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 a non-IFRS measure and represents realized carried interest after direct costs, which include employee expenses and cash taxes. A reconciliation of realized carried interest to realized carried interest, net, is shown below:

FOR THE THREE MONTHS ENDED SEP. 30 (MILLIONS)	<u>2021</u>	<u>2020</u>
Realized carried interest <sup>1</sup> .....	\$ 304	\$ 42
Less: direct costs associated with realized carried interest .....	<u>(123)</u>	<u>(13)</u>
	181	29
Less: realized carried interest not attributable to BAM .....	<u>(35)</u>	<u>(2)</u>
Realized carried interest, net .....	<u>\$ 146</u>	<u>\$ 27</u>

1. Includes \$188 million of realized carried interest related to Oaktree (2020 — \$8 million). For segment reporting, Oaktree’s revenue is shown on a 100% basis.

**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 carried interest than our standard funds.

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

AS AT SEP. 30 (MILLIONS)	<u>2021</u>	<u>2020</u>
Carry eligible capital <sup>1</sup> .....	\$ 102,960	\$ 83,474
Less:		
Uncalled private fund commitments .....	(35,476)	(27,977)
Co-investments and other .....	(6,997)	(7,606)
Funds not yet at target preferred return .....	<u>(14,054)</u>	<u>(16,360)</u>
Adjusted carry eligible capital .....	<u>\$ 46,433</u>	<u>\$ 31,531</u>

1. Excludes carry eligible capital related to Oaktree.

**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, perpetual affiliates and directly held investments. 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.

**Total liquidity** represents the sum of core liquidity and uncalled private fund commitments and is used to pursue new transactions.

**Corporate capitalization** represents the amount of debt issued by the Corporation, accounts payable and deferred tax liability in our Corporate segment as well as our issued and outstanding common and preferred shares.

**Distributions (current rate)** represents the distributions that we would receive during the next twelve months based on the current distribution rates of the investments that we currently hold. The dividends from our listed investments are calculated by multiplying the number of shares held by the most recently announced distribution policy. The yield on cash and financial assets portfolio is equal to an estimated 8% on the ending balance as of the end of the current quarter. Distributions on our unlisted investments are calculated based on the quarterly distributions received in the most recent fiscal year.

**Distributable earnings (formerly referred to as “cash available for distribution and/or reinvestment”)** is a non-IFRS measure that provides insight into earnings received by the Corporation that are available for distribution to common shareholders or to be reinvested into the business. It is calculated as the sum of our Asset Management segment FFO (i.e., fee-related earnings and realized carried interest, net); distributions from our perpetual affiliates, other investments that pay regular cash distributions and FFO from our corporate cash and financial assets; other invested capital earnings, which include FFO from our residential operations, energy contracts, sustainable resources and other real estate, private equity, corporate investments that do not pay regular cash distributions, corporate costs and corporate interest expense; excluding equity-based compensation costs and net of preferred share dividend payments. As of January 1, 2021, we now include realizations from our principal investments as these are earnings that are directly received by the Corporation and are available for distribution to common shareholders or to be reinvested into the business. Comparative figures have been revised accordingly.

**Economic ownership interest** represents the company’s proportionate equity interest in our listed partnerships 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 partnerships (“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 listed 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 perpetual affiliates, private funds and liquid strategies that we manage which entitles us to earn fee revenues. Fee-bearing capital includes both called (“invested”) and uncalled (“pledged” or “committed”) amounts. When reconciling period amounts, we utilize the following definitions:

- **Inflows** include capital commitments and contributions to our private and liquid strategies funds and equity issuances in our perpetual affiliates.
- **Outflows** represent distributions and redemptions of capital from within the liquid strategies capital.
- **Distributions** represent quarterly distributions from perpetual affiliates as well as returns of committed capital (excluding market valuation adjustments), redemptions and expiry of uncalled commitments within our private funds.
- **Market valuation** includes gains (losses) on portfolio investments, perpetual affiliates and liquid strategies based on market prices.
- **Other** includes changes in net non-recourse leverage included in the determination of perpetual affiliate capitalization and the impact of foreign exchange fluctuations on non-U.S. dollar commitments.

**Fee-related earnings** is an IFRS measure that 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** is an IFRS measure and includes 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:

FOR THE PERIODS ENDED SEP. 30 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three Months Ended				Nine Months Ended			
	Total		Per Share		Total		Per Share	
	2021	2020	2021	2020	2021	2020	2021	2020
Net income (loss) .....	\$ 2,722	\$ 542	\$ 1.66	\$ 0.34	\$ 8,927	\$ (1,108)	\$ 5.60	\$ (0.75)
Financial statement components not included in FFO								
Equity accounted fair value changes and other non-FFO items .....	307	602	0.19	0.39	923	2,793	0.59	1.85
Fair value changes .....	(700)	31	(0.43)	0.02	(3,171)	1,598	(2.02)	1.06
Depreciation and amortization .....	1,617	1,470	1.00	0.96	4,698	4,255	2.99	2.81
Deferred income taxes .....	428	21	0.27	0.01	918	93	0.58	0.06
Realized disposition gains recorded as fair value changes or equity .....	255	161	0.15	0.10	2,467	723	1.57	0.48
Non-controlling interest in FFO .....	(3,221)	(1,788)	(1.99)	(1.17)	(8,933)	(5,270)	(5.68)	(3.58)
Total FFO .....	<u>\$ 1,408</u>	<u>\$ 1,039</u>	<u>\$ 0.85</u>	<u>\$ 0.65</u>	<u>\$ 5,829</u>	<u>\$ 3,084</u>	<u>\$ 3.63</u>	<u>\$ 1.93</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, 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 borrowings or the cost of borrowings 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** is an IFRS measure and is determined by contractual arrangements; incentive distributions are paid to us by BEP and BIP and represent a portion of distributions paid by perpetual affiliates 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, 2021	Current Distribution Rate <sup>1</sup>	Distribution Hurdles (per unit) <sup>2</sup>	Incentive Distributions
Brookfield Infrastructure (BIP) <sup>3</sup>	\$ 2.04	\$ 0.73 / \$ 0.79	15% / 25%
Brookfield Renewable (BEP) <sup>4</sup>	1.22	0.80 / 0.90	15% / 25%

1. Current rate based on most recently announced distribution rates.

2. Incentive distributions equate to 18% and 33% of limited partner distribution increases over the first and second hurdles, respectively.

3. Incentive distributions from Brookfield Infrastructure are earned on distributions made by BIP and BIPC.

4. Incentive distributions from Brookfield Renewable are earned on distributions made by BEP and BEPC.

**Invested capital** consists of investments in our perpetual affiliates, other listed securities, unlisted investments and corporate working capital. Our invested capital provides us with FFO and cash distributions.

**Invested capital, net** consists of invested capital and leverage.

**Leverage** represents the amount of corporate borrowings and perpetual preferred shares held by the company.

**Long-term average (“LTA”) generation** is used in our Renewable Power and Transition 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, LTA generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for LTA. We compare LTA generation to actual generation levels to assess the impact on revenues and FFO of hydrology, wind generation levels and irradiance, which vary from one period to the next.

**Performance fees** is an IFRS measure. Performance fees are paid to us when we exceed predetermined investment returns within BBU and on certain liquid strategies portfolios. BBU performance fees are accrued quarterly based on the volume-weighted average increase in BBU unit price over the previous threshold, whereas performance fees within liquid strategies funds are typically determined on an annual basis. Performance fees are not subject to clawback.

**Proportionate basis generation** is used in our Renewable Power and Transition 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** is a component of FFO and includes gains or losses arising from transactions during the reporting period together with any fair value changes and revaluation surplus recorded in prior periods, 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.

**Unrealized carried interest** 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.

**Accumulated unrealized carried interest** is based on carried interest that would be receivable under the contractual formula at the period end date as if a fund was liquidated and all investments had been monetized at the values recorded on that date. 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 are included in the definition of unrealized carried interest below.

**Accumulated unrealized carried interest, net** is after direct costs, which include employee expenses and taxes.

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

AS AT SEP. 30 (MILLIONS)	Adjusted Carry Eligible Capital <sup>1</sup>	Adjusted Multiple of Capital <sup>2</sup>	Fund Target Carried Interest <sup>3</sup>	Current Carried Interest <sup>4</sup>
<b>2021</b>				
Real Estate .....	\$ 16,972	1.4x	20%	22%
Infrastructure .....	23,691	1.5x	20%	16%
Private Equity .....	5,770	2.0x	20%	16%
	<u>\$ 46,433</u>			
<b>2020</b>				
Real Estate .....	\$ 8,911	1.5x	20%	16%
Infrastructure .....	20,377	1.4x	20%	17%
Private Equity .....	2,243	2.9x	20%	18%
	<u>\$ 31,531</u>			

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:

(MILLIONS)	<b>Accumulated Unrealized Carried Interest</b>					
	Sep. 30, 2021	Jun. 30, 2021	Change	Sep. 30, 2020	Jun. 30, 2020	Change
Real Estate .....	\$ 1,591	\$ 1,193	\$ 398	\$ 751	\$ 640	\$ 111
Infrastructure .....	1,851	1,825	26	1,288	1,095	193
Private Equity .....	923	879	44	752	552	200
Oaktree .....	1,532	1,432	100	728	645	83
Accumulated unrealized carried interest .....	5,897	5,329	568	3,519	2,932	587
Less: associated expenses <sup>1</sup> .....	(1,930)	(1,823)	(107)	(1,238)	(1,032)	(206)
Accumulated unrealized carry, net .....	<u>\$ 3,967</u>	<u>\$ 3,506</u>	461	<u>\$ 2,281</u>	<u>\$ 1,900</u>	381
Add: realized carried interest, net .....			146			27
Unrealized carried interest, net .....			<u>\$ 607</u>			<u>\$ 408</u>

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.