BAM INVESTMENTS CORP.

2011 Annual Report

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Forward-Looking Information

This interim report contains forward-looking information concerning the company's business and operations. The words "objective", "expect", "potential", "believes" and other expressions of similar import, or the negative variations thereof, and similar expressions of future or conditional verbs such as "may", "should", "could", "would" or "will", are predictions of or indicate future events, trends or prospects or identify forward-looking information. Forward-looking information in this interim report includes, among others, statements with respect to the company's objective of providing capital appreciation to its common shareholders, its use of operating cash flows and investment income, potential tax liability, expected future results, expected operating cash requirements, expected distributions on the Brookfield securities held by the company, the company's liquidity and its ability to finance its obligations, and other statements with respect to the company's beliefs, outlooks, plans, expectations and intentions.

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

Factors that could cause actual results to differ materially from those contemplated or implied by the forward-looking information include: the behavior of financial markets, including fluctuations in interest and exchange rates, availability of equity and debt financing and other risks and factors detailed from time to time in the company's other documents filed with the Canadian securities regulators.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking information to make decisions with respect to the company, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as may be required by law, the company undertakes no obligation to publicly update or revise any forward-looking information or statements, whether written or oral, that may be as a result of new information, future events or otherwise. Reference should be made to the company's most recent Annual Information Form for a description of the major risk factors.

Cautionary Statement Regarding Use of Non-IFRS Accounting Measures

This interim report makes reference to net income for common shareholders and net book value per common share, and provides a full reconciliation between these measures and net income and total assets, respectively, which the company considers to be the most directly comparable measures calculated in accordance with IFRS.

Statement of Financial Position

The information in the following table has been extracted from the consolidated financial statements of the company as at December 31, 2011.

As at December 31, 2011 (thousands, except per share amounts)		
Assets		
Cash and equivalents	$	30,904
Investments		
Brookfield Asset Management Inc.[1]		1,572,085
Other securities		118,412
Accounts receivable and other		1,245
	$	1,722,646
Liabilities and Shareholders' Equity		
Accounts payable and other	$	522
Retractable preferred shares[2]		486,718
Deferred taxes[3]		132,591
		619,831
Shareholders' Equity		
Common equity		1,102,815
	$	1,722,646
Net Book Value Per Common Share[4,5]	$	14.86

Notes:

1 *The investment in Brookfield Asset Management Inc. consists of 56.2 million Class A Shares at a bid price of $27.96 per Class A Share as at December 31, 2011.*

2 *Represents $492.4 million of retractable preferred shares less $5.6 million of unamortized issue costs.*

3 *The deferred tax liability represents the potential future income tax liability of the company recorded for accounting purposes based on the difference between the carrying values of the company's assets and liabilities and their respective tax values, as well as giving effect to estimated capital and non-capital losses.*

4 *As at December 31, 2011, there were 74,206,510 (December 31, 2010 – 79,206,610) voting and non-voting common shares of the company issued and outstanding on a fully diluted basis.*

5 *Net book value per common share is a non-IFRS measure.*

Change in Net Book Value

For the year ended December 31	2011				2010			
(thousands, except per share amounts)		Total		Per Share		Total		Per Share
Net book value, beginning of year[1]	$	1,408,311	$	17.78	$	896,069	$	11.30
Net income[2]		2,085		0.03		13,127		0.17
Other comprehensive (loss) income[2]		(223,525)		(2.97)		500,128		6.31
Common shares repurchased		(84,056)		0.02		(1,013)		—
Net book value, end of year[1,3]	$	1,102,815	$	14.86	$	1,408,311	$	17.78

Notes:

1 *Net book value per common share is non-IFRS measure.*

2 *The weighted average number of common shares outstanding during the year ended December 31, 2011 was 76,289,852 (December 31, 2010 – 79,227,318).*

3 *As at December 31, 2011 there were 74,206,510 (December 31, 2010 – 79,206,610) voting and non-voting common shares of the company issued and outstanding on a fully diluted basis.*

Overview

BAM Investments Corp., (the "company") is a leveraged investment company whose principal investment is a direct and indirect ownership interest in 56.2 million Class A Limited Voting Shares ("Class A Shares") of Brookfield Asset Management Inc. ("Brookfield").

The company's objective is to provide its common shareholders with capital appreciation as opposed to income returns. Investment income, which consists principally of dividends from its investment in Brookfield Class A Shares, is dedicated to paying dividends on its financing obligations.

The company's investment in Brookfield is owned directly and indirectly through BAM Split Corp. ("BAM Split"), a public subsidiary in which BAM Investments owns 100% of the common equity. BAM Split has publicly listed retractable preferred shares of which $492.4 million were outstanding at December 31, 2011.

Additional information on the company and BAM Split, including the company's annual information form, is available on SEDAR's web site at www.sedar.com.

Results of Operations

Overview

BAM Investments Corp. recorded income from operations of $11.7 million for the year ended December 31, 2011 compared to $18.3 million in the prior year. The decrease in income from operations compared to the prior year was primarily the result of an increase in retractable preferred share dividends following the December 2010 issuance of $125 million of Class AA Series V Preferred Shares. The proceeds of which were primarily used to repurchase 5 million common shares of the company and to acquire an additional 760,000 Brookfield Class A Shares. Net income for the year, which includes income from operations as well as certain other items, was $2.1 million ($0.03 per common share) compared to income of $13.1 million ($0.17 per common share) in the prior year.

The company's net book value was $14.86 per share at December 31, 2011, and decreased compared to the prior year as a result of changes in the market value of the company's investment portfolio.

The following table reconciles the company's income from operations and net income for the year ended December 31:

thousands	**2011**	2010	Variance
Investment Income			
Dividend and interest	**$ 33,672**	$ 36,966	$ (3,294)
Cash portion of equity accounted income[1]	**3,660**	—	3,660
Gain on sale of investments	**846**	1,995	(1,149)
	38,178	38,961	(783)
Less:			
Operating expenses	**695**	698	(3)
Retractable preferred share dividends	**25,789**	19,914	5,875
Income from operations[2]	**11,694**	18,349	(6,655)
Adjust for other items:			
Non-cash portion of equity accounted income[1]	**(5,316)**	—	(5,316)
Foreign currency revaluation	**(1,202)**	(1,905)	703
Amortization of deferred financing costs	**(2,446)**	(1,889)	(557)
Income tax expense	**(645)**	(1,428)	783
Net income	**$ 2,085**	$ 13,127	$ (11,042)

Notes:

1. *Equity accounted income is adjusted to separate the company's proportionate share of cash distributions and non-cash changes in value to better reflect the amount of investment income generated by the investment portfolio.*
2. *Income from operations is a non-IFRS measure used by the company to better reflect the operating performance during the period. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the company's equity accounted investment.*

Investment Income

Investment income for the years ended December 31 consists of the following:

thousands		**2011**		2010
Dividends:				
Brookfield	**$**	**28,549**	$	29,670
Other		**6,599**		2,561
Interest income		**2,184**		4,735
Dividend and interest income		**37,332**		36,966
Gain on sale of investments		**846**		1,995
	$	**38,178**	$	38,961

The company received dividend income of $28.5 million (2010 – $29.7 million) from its investment in Brookfield. Brookfield declares dividends in U.S. dollars, and as a result the Canadian dollar equivalent recorded by the company decreased due to a weaker U.S. dollar relative to the Canadian dollar compared to the prior year. This was partially offset by the higher number of shares held during the period following the acquisition of an additional 760,000 shares of Brookfield in the first quarter of 2011.

In April 2011, the company sold its portfolio of U.S. dollar bonds and invested the proceeds to acquire units of a fund that owns an economic interest in a similar portfolio. The company uses the equity method of accounting for its investment in the fund. The company's proportionate share of the fund's net loss was $1.7 million during the year. This consisted of $3.7 million of distributions received and a $5.3 million unrealized loss on the mark-to-market of the fund's investment portfolio.

Interest income in the prior year included interest earned on the U.S. dollar bond portfolio which was disposed of in April 2011.

Retractable Preferred Share Dividends

The company paid $25.8 million (2010 – $19.9 million) of dividends on the retractable preferred shares during the year ended December 31, 2011. The increase in preferred dividends paid in comparison to the prior year is the result of the full years dividends paid on the $125 million Class AA, Series V Preferred Shares, which were issued in December 2010.

Unrealized Loss on Equity Accounted Investments

The company recorded a $1.7 million (2010 – $nil) loss on its proportionate share of its investment in a publicly listed fund which was acquired in April 2011. This consisted of $3.7 million of distributions received and a $5.3 million unrealized loss on the mark-to-market of the fund's investment portfolio.

Foreign Currency Revaluation

The company's previously held U.S. dollar bonds revalued from changes in the U.S. dollar relative to the Canadian dollar in net income. As a result, the company recorded a foreign currency revaluation loss of $1.2 million (2010 – $1.9 million loss).

Amortization of Financing Costs

The amortization of deferred financing costs associated with preferred shares issued by BAM Split resulted in a charge against income of $2.4 million (2010 – $1.9 million). The increase in deferred financing fees is a result of the amortization of fees incurred on the Class AA, Series V Preferred Shares, which were issued in December 2011.

Income Taxes

The company recorded an income tax expense of $0.6 million (2010 – expense of $1.4 million) during the year ended December 31, 2011. The larger expense in the prior year is the result of an increased amount of taxable interest income received on the U.S. dollar high yield bond portfolio which was disposed of in April 2011.

Financial Position

The company's total assets were $1,722.6 million at December 31, 2011 and consist primarily at its $1,572.1 million investment in 56.2 million Brookfield Class A shares. The market price of a Brookfield Class A share decreased from $33.15 per share at December 31, 2010 to $27.96 at December 31, 2011 which resulted in a $291.6 million decrease in total assets.

Investment Portfolio

Investment in Brookfield Asset Management Inc.

In February 2011, the company acquired an additional 760,000 Brookfield Shares for $25.0 million, increasing its investment to 56.2 million (December 31, 2010 – 55.5 million) Class A Shares, representing a 9.0% (December 31, 2010 – 9.6%) fully diluted equity interest. The quoted market value, based on the bid price of this investment as at December 31, 2011 of $27.96 per share, was $1,572.1 million.

The company has classified the Brookfield shares as available-for-sale financial instruments, and accordingly recognizes changes in the market value of these shares through Other Comprehensive Income.

Brookfield is a global alternative asset manager focused on real estate, infrastructure, power and private equity with approximately $150 billion of assets under management and is inter-listed on the New York, Toronto and NYSE Euronext stock exchanges. Further information on Brookfield can be found on Brookfield's web site at www.brookfield.com.

Other Securities

The company holds an investment in Brookfield Infrastructure Partners which consists of 2.2 million (December 31, 2010 – 2.2 million) Limited Partnership Units with a quoted market value at $62.7 million as at December 31, 2011. This investment is classified as an available-for-sale financial instrument and accordingly changes in the market value are recorded in Other Comprehensive Income.

The company disposed of its portfolio of U.S. bonds in April 2011 and used the proceeds to acquire a 47% ownership interest in a publicly listed fund that owns an economic interest in a similar portfolio. The market value of the investment was $55.7 million as at December 31, 2011. The company exercises significant influence over the fund and accounts for the fund using the equity method. As such, the company records its proportionate share of the investee's income as equity accounted income in the consolidated statement of operations.

Deferred Taxes

The deferred tax liability represents the potential tax liability based on the excess of the carrying value of net assets over the respective tax values, less available loss carry forwards. The potential tax liability decreased during the year following a decrease in the market value of the Brookfield Class A Shares.

Liquidity and Capital Resources

The company holds cash and equivalents totalling $31 million and marketable securities of $118 million as at December 31, 2011. The company does not have any maturing debt or mandatory preferred share redemptions prior to July 2014. The operating cash requirements for 2011 include $26 million of scheduled dividend payments on the $492 million preferred shares issued by BAM Split which are less than the expected regular distributions on the Brookfield securities held by the company. Accordingly, the company believes it has sufficient liquid assets, operating cash flow and financing alternatives to meet its obligations.

On June 13, 2011, the company completed its offer to acquire 5 million of its common shares at a price per share of $16.75 for total consideration, including transaction costs, of $84.1 million.

Retractable Preferred Shares

Retractable preferred shares issued by BAM Split are comprised of the following:

thousands, except shares outstanding		Latest Redemption Date	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
2,057,200	4.95% Class AA, Series I	March 25, 2016	$ 51,430	$ 51,430	$ 51,430
7,636,800	4.35% Class AA, Series III	January 10, 2019	190,920	190,920	190,920
5,000,000	7.25% Class AA, Series IV	July 9, 2014	125,000	125,000	125,000
5,000,000	4.85% Class AA, Series V	December 10, 2017	125,000	125,000	—
			492,350	492,350	367,350
Deferred financing costs[1]			(5,632)	(8,038)	(5,773)
			$ 486,718	$ 484,312	$ 361,577

Notes:

1 Deferred financing costs are amortized over the term of the borrowing following the effective interest method.

Shareholders' equity

As at December 31, 2011 shareholders' equity consisted of 74,206,510 voting and non-voting common shares and had a book value of $1,102.8 million compared to $1,408.3 million at the end of 2010. The decrease is primarily the result of a lower market value of the Class A Shares of Brookfield, whose share price decreased from $33.15 at December 31, 2010 to $27.96 at December 31, 2011. The company acquired 5,000,000 of its common shares through a substantial issuer bid on June 13, 2011 at a cost of $84.1 million.

Business Environment and Risks

The company's activities expose it to a variety of financial risks, including market risk (i.e. currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The following are risk factors relating to an investment in the common shares of the company.

Fluctuations in Value of Investments

The value of common shares may vary according to the value of the Class A Shares and other securities owned by the company. The value of these investments may be influenced by factors not within the control of the company, including the financial performance of Brookfield and other investees, interest rates and other financial market conditions. As a result, the net asset value of the company may vary from time to time.

The future value of the common shares will be largely dependent on the value of the Class A Shares. A material adverse change in the business, financial conditions or results of operations of Brookfield and other investees of the company will have a material adverse effect on the common shares of the company. In addition, the company may incur additional financial leverage in order to acquire, directly or indirectly, additional securities issued by Brookfield, which would increase both the financial leverage of the company and the dependency of the future value of the common shares on the value of the Class A Shares.

Foreign Currency Exposure

The company's investment in Brookfield and certain of its other investments are functionally United States dollar investments. Accordingly, the value of the these assets may vary from time to time with fluctuations in the exchange rate between Canadian and United States dollars. In addition, there investments pay distributions and interest in United States dollars. Strengthening of the Canadian dollar relative to the United States dollar could decrease the amount of cash available to the company.

Leverage

The company's assets are financed in part with the retractable preferred shares issued by BAM Split. This results in financial leverage that will increase the sensitivity of the value of the common shares to changes in the values of the assets owned by the company. A decrease in the value of the company's investments may have a material adverse effect on the company's business and financial conditions.

Liquidity

The company's liquidity requirements are typically limited to funding interest and dividend obligations on outstanding financial obligations.

Holders of the company's retractable preferred shares have the ability to retract the shares to the company. The Class AA, Series I Preferred shares are retractable for cash, whereas the company has the right to issue debentures, as opposed to cash, to settle retractions of the Class AA, Series III; Class AA, Series IV and Class AA, Series V preferred shares, respectively.

The company maintains financial assets and credit facilities to fund liquidity requirements in the normal course, in addition to its investment in Brookfield. The company's policy is to hold the Class A Shares and not engage in trading, however shares are available to be sold to fund retractions and redemptions of preferred shares or common shares. The company's ability to sell a substantial portion of the Class A Shares may be limited by resale restrictions under applicable securities laws that will affect when or to whom the Class A Shares may be sold. Accordingly, if and when the company is required to sell Class A Shares, the liquidity of such shares may be limited. This could affect the time it takes to sell the Class A Shares and the price obtained by the company for the Class A Shares sold.

No Ownership Interest

A direct investment in common shares does not constitute a direct investment in the Class A Shares of Brookfield or other securities held by the company. Holders of common shares do not own the Class A Shares or other securities held by the company or have any voting rights in respect of such securities.

Contractual Obligations

The company's contractual obligations are as follows:

		Payment Due By Period			
thousands	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Retractable preferred shares					
Class AA, Series I[1]	$ 51,430	$ —	$ —	$ 51,430	$ —
Class AA, Series III[2]	190,920	—	—	—	190,920
Class AA, Series IV[3]	125,000	—	125,000	—	—
Class AA, Series V[4]	125,000	—	—	—	125,000
Interest expense related to:					
Retractable preferred shares					
Class AA, Series I	$ 11,043	$ 2,546	$ 5,092	$ 3,405	$ —
Class AA, Series III	59,247	8,305	16,610	16,610	17,722
Class AA, Series IV	23,845	9,063	14,782	—	—
Class AA, Series V	36,674	6,063	12,125	12,125	6,361

Notes:

1 Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in cash.
2 Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the company due 2019.
3 Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the company due 2014.
4 Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the company due 2017.

Summary of Financial Information

The following table summarizes selected consolidated financial information of the company for the years ended December 31, 2011, 2010 and 2009:

Thousands, except per share amounts	**2011**	2010	2009[1]
Income from operations[2]	**$ 11,694**	$ 18,349	$ 17,616
Net income	**2,085**	13,127	18,568
Net income per common share	**0.03**	0.17	0.23
Total assets	**1,722,646**	2,076,347	1,391,344
Total long-term liabilities	**619,309**	667,115	494,810

Notes:

1 Canadian GAAP.
2 Income from operations is a non-IFRS measure used by the company to better reflect the operating performance during the period. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the company's equity accounted investment.

A summary of the eight recently completed quarters is as follows:

	2011				2010			
thousands, except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Income from operations[2]	**$ 2,919**	**$ 2,527**	**$ 4,274**	**$ 1,974**	$5,766	$ 4,433	$ 4,241	$ 3,909
Net (loss) income	**3,275**	**(2,786)**	**1,537**	**59**	3,564	2,116	5,285	2,162
Net income per common share	**0.05**	**(0.04)**	**0.02**	**0.00**	0.04	0.03	0.07	0.03

Notes:

1 Canadian GAAP.
2 Income from operations is a non-IFRS measure used by the company to better reflect the operating performance during the period. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the company's equity accounted investment.

Income from operations includes dividends and interest on the company's investment portfolio and is partially offset by the company's operating costs, which primarily consists of dividends paid on the retractable preferred shares. Income from operations fluctuates from changes in the U.S. dollar relative to the Canadian dollar on dividends earned on U.S. dollar investments. Also included in income from operations are gains and losses on the disposition of investments. The variance in net income on the last eight quarters is primarily the result of mark-to-market adjustments on certain of the company's investments.

Related Party Transactions

Brookfield provided management and financial services to the company during 2011 and 2010 and recovered costs of $40,000 in 2011 (2010 – $40,000) in respect of those services.

At December 31, 2011 the company had $29.0 million (2010 – $nil) of its cash on short-term deposit with Brookfield.

Brookfield Investment Management Inc. ("BIM"), a subsidiary of Brookfield, provided investment management services to the company in relation to its high-yield bond portfolio which was sold on April 1, 2011. The company paid $58,000 (2010 – $185,000) in respect of those services.

The company sold its direct investment in its high-yield bond portfolio to a publicly listed fund that is managed by BIM and recognized a gain of $1.8 million. The proceeds were used to purchase 6.1 million units of the publicly listed fund, which owns an economic interest in a similar portfolio. The transaction was recorded at market value.

International Financial Reporting Standards

The company adopted IFRS effective January 1, 2011 and has prepared the financial statements in this annual report using IFRS accounting policies. Prior to the adoption of IFRS, the company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Significant differences between IFRS and Canadian GAAP

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure.

The following discussion highlights the significant new standards that the company has adopted under IFRS and the effect on the comparative period results of operations and financial position as previously reported under Canadian GAAP as well as the possible effects going forward.

(i) Foreign exchange gains and losses on available-for-sale debt securities

Under Canadian GAAP, foreign exchange gains and losses on available-for-sale debt securities are recorded in other comprehensive income whereas under IFRS these gains or losses are recorded directly to profit or loss. This difference does not impact comprehensive income or total shareholder's equity reported by the company, as any impact to net income is equally offset by a change in other comprehensive income.

(ii) Deferred taxes

Deferred taxes related to the adjustment as described above.

(iii) Provisions

Under IFRS, provisions should be recorded to reflect obligations present at the end of the reporting period if it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made. A provision recognized in the financial statements should be recorded at the current best estimate of the amount required to settle an obligation at the end of the reporting period. Canadian GAAP does not provide guidance on the timing of recognition and quantification of provisions.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The adoption of IFRS requires the application of IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity applies all standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and provides limited optional exemptions in specified areas of certain standards from this general requirement. The company did not elect any of the available optional exemptions on adoption of IFRS.

Future Changes in Accounting Policies

Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The company has not yet determined the impact of IFRS 9 on its financial statements.

Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the IASB issued three standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), and amended two standards: IAS 27, Separate Financial Statements ("IAS 27"), and IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new and amended standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the respective standards are also early applied.

IFRS 10 replaces IAS 27 and SIC-12, Consolidation-Special Purpose Entities ("SIC-12"). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The company has not yet determined the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The company has not yet determined the impact of the amendments to IAS 28 on its consolidated financial statements.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The company has not yet determined the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurements

In May 2011, the IASB issued IFRS 13, Fair Value Measurements ("IFRS 13"). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enable the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The company has not determined the impact of IFRS 13 on its financial statements.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"). The amendments require that items of other comprehensive income are grouped into two categories: items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required in the determination of future cash flows and probabilities in assessing net recoverable amounts and net realizable values; tax and other provisions; and fair values for disclosure purposes. In the normal course of operations, the company may execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions and the sale of assets. The nature of substantially all of the indemnification undertakings precludes the possibility of making a reasonable estimate of the maximum potential amount that the company could be required to pay to third parties as the agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the company has not made any payments under such indemnification agreements and guarantees.

Disclosure Controls And Procedures

We maintain appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The President and the Vice President, Finance of the company evaluated the effectiveness of the company's disclosure controls and procedures (as defined in "National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings") as at December 31, 2011 and have concluded that the disclosure controls and procedures are operating effectively.

Internal Controls Over Financial Reporting

We maintain appropriate internal controls over financial reporting (as defined in "National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings") and the Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management has evaluated whether there were changes in our internal controls over financial reporting during the year ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting and has determined that there have been no such changes.

Edward C. Kress
President
April 19, 2012

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and other financial information have been prepared by the company's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the consolidated financial statements.

Toronto Canada
April 19, 2012

Edward C. Kress
President

Independent Auditor's Report

To the Shareholders of BAM Investments Corp.

We have audited the accompanying consolidated financial statements of BAM Investment Corp., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations, consolidated statements of comprehensive (loss) income, consolidated statements of changes in equity, and the consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of BAM Investments Corp. as at December 31, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Toronto, Canada
April 19, 2012

Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

(thousands)	Note	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets				
Cash and cash equivalents		**$ 30,904**	$ 132,948	$ 23,104
Accounts receivable and other		**1,245**	3,321	2,379
Brookfield Asset Management Inc.	5	**1,572,085**	1,838,706	1,294,582
Other securities	5	**118,412**	101,372	71,279
		$ 1,722,646	$ 2,076,347	$ 1,391,344
Liabilities				
Accounts payable and other		**$ 522**	$ 921	$ 465
Retractable preferred shares	6	**486,718**	484,312	361,577
Deferred taxes		**132,591**	182,803	133,233
		619,831	668,036	495,275
Shareholders' Equity				
Common equity	7	**1,102,815**	1,408,311	896,069
		$ 1,722,646	$ 2,076,347	$ 1,391,344

See accompanying notes to financial statements.

On behalf of the Board

Frank N.C. Lochan
Director

Edward C. Kress
Director

Consolidated Statements of Operations

(thousands, except per share amounts)	**2011**	2010
Investment Income		
Dividends and interest	**$ 33,672**	$ 36,966
Gain on sale of investments	**846**	1,995
	34,518	38,961
Expenses		
Operating	**695**	698
Retractable preferred share dividends	**25,789**	19,914
	26,484	20,612
	8,034	18,349
Equity accounted income	**(1,656)**	—
Amortization of deferred financing costs	**(2,446)**	(1,889)
Foreign currency revaluation	**(1,202)**	(1,905)
Current tax expense	**(189)**	(2,011)
Deferred tax (expense) recovery	**(456)**	583
Net income	**$ 2,085**	$ 13,127
Net income per common share (Note 8)	**$ 0.03**	$ 0.17

See accompanying notes to financial statements.

Consolidated Statements of Comprehensive (Loss) Income

(thousands)	**2011**	2010
Net income	**$ 2,085**	$ 13,127
Unrealized (loss) gain on available-for-sale securities	**(274,194)**	550,280
Deferred income taxes	**50,669**	(50,152)
Other comprehensive (loss) income	**(223,525)**	500,128
Comprehensive (loss) income	**$ (221,440)**	$ 513,255

See accompanying notes to financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2011 (thousands)	Note	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
Balance, beginning of year		$ 84,803	$ 1,244,569	$ 78,939	$ 1,408,311
Net income		—	—	2,085	2,085
Other comprehensive loss		—	(223,525)	—	(223,525)
Shares purchased for cancellation		(5,353)	—	(78,703)	(84,056)
Balance, end of year	7	$ 79,450	$ 1,021,044	$ 2,321	$ 1,102,815

For the year ended December *31, 2010 (thousands)*	Note	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
Balance, beginning of year		$ 84,904	$ 744,441	$ 66,724	$ 896,069
Net income		—	—	13,127	13,127
Other comprehensive income		—	500,128	—	500,128
Shares purchased for cancellation		(101)	—	(912)	(1,013)
Balance, end of year	7	$ 84,803	$ 1,244,569	$ 78,939	$ 1,408,311

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

(thousands)	Note	2011	2010
Cash flow from operating activities			
Net income		**$ 2,085**	$ 13,127
Add (deduct) non-cash items:			
Foreign currency revaluation		**1,202**	1,905
Non-cash portion of equity accounted income		**5,316**	—
Gain on sale of investments		**(846)**	(1,995)
Amortization of deferred financing costs		**2,446**	1,889
Deferred tax expense (recovery)		**456**	(583)
		10,659	14,343
Changes in working capital		**1,524**	(291)
		12,183	14,052
Cash flow used in investing activities			
Sale of investments		**63,791**	30,436
Purchase of Brookfield Asset Management Inc. Class A Shares		**(24,966)**	—
Purchase of other securities		**(68,996)**	(54,477)
		(30,171)	(24,041)
Cash flow (used in) from financing activities			
Common shares repurchased		**(84,056)**	(1,013)
Preferred shares issued		**—**	125,000
Share issue costs		**—**	(4,154)
		(84,056)	119,833
Cash and cash equivalents			
(Decrease) increase during the year		**(102,044)**	109,844
Balance, beginning of year		**132,948**	23,104
Balance, end of year	13	**$ 30,904**	$ 132,948

See accompanying notes to financial statements.

1. Business Operations

BAM Investments Corp. (the "company") is an investment holding company incorporated under the laws of the province of Ontario which owns a leveraged investment in Brookfield Asset Management Inc. ("Brookfield"). Brookfield provides management and administration services to the company. The consolidated financial statements include the accounts of the company's wholly-owned subsidiary, BAM Split Corp. ("BAM Split"). The company was formed by the articles of incorporation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

2. Summary of Significant Accounting Policies

(a) Statement of compliance

These consolidated financial statements represent the first annual financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The company adopted IFRS in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" as discussed in Note 3.

These financial statements were authorized for issuance by the Board of Directors of the company on April 19, 2012.

(b) Basis of presentation

Going Concern
The financial statements are prepared on a going concern basis. Standards and guidelines not effective for the current accounting periods are described in the Future Changes in Accounting Policies section below.

Foreign currencies
The company considers the Canadian dollar to be its functional currency as it is the currency of the primary economic environment in which the company operates. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions.

Income taxes
The company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on unused income tax losses and temporary differences between the carrying amount and tax bases of assets and liabilities, when the benefit or cost is more likely than not to be realized and measured using the tax rates and laws substantively enacted at the balance sheet date. The deferred tax liability is classified as non-current.

Cash and cash equivalents
Cash and cash equivalents are current assets that are recorded at amortized cost and include cash on deposit with financial institutions and demand deposits with related parties.

Accounts receivable and other, accounts payable and other
Accounts receivable and other and accounts payable and other balances are current assets and liabilities. The balances are classified as loans and receivables are recorded at amortized cost.

Investment in Brookfield and other securities
The company accounts for its investment in Brookfield and other securities as available-for-sale financial investments and records them at fair value (see Notes 4 and 5).

Equity accounted investment
The company holds a 47% ownership interest in a publicly listed fund. The company exercises significant influence over the investment, and as a result, uses the equity method of accounting for its investment in the fund. Under the equity method, the company records its proportionate share of the investee's income in the consolidated statements of operations.

Revenue recognition
Dividend income is recognized on the ex-dividend date.

Deferred financing costs
Deferred financing costs were incurred in connection with the issuance of the retractable preferred shares of BAM Split and are amortized using the effective interest rate method.

(c) Critical Judgments and Estimates

The preparation of financial statements requires the company to make critical judgments, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the company believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in these financial statements.

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

Financial Instruments
The critical assumptions and estimates used in determining the fair value of financial instruments are: equity prices; future interest rates; and estimated future cash flows.

Level of Control
When determining the appropriate basis of accounting for the company's investments, the company uses the following critical assumptions and estimates: the degree of control or influence that the company exerts over the investment and the amount of benefit that the company receives relative to other investors.

Other critical estimates and judgments utilized in the preparation of the company's financial statements are: assessment of net recoverable amounts; net realizable values; ability to utilize tax losses and other tax measurements; and the determination of functional currency.

(d) Future changes in accounting policies

Financial Instruments
IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The company has not yet determined the impact of IFRS 9 on its financial statements.

Consolidated Financial Statements, Joint Ventures and Disclosures
In May 2011, the IASB issued three standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), and amended two standards: IAS 27, Separate Financial Statements ("IAS 27"), and IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new and amended standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the respective standards are also early applied.

IFRS 10 replaces IAS 27 and SIC-12, Consolidation-Special Purpose Entities ("SIC-12"). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The company has not yet determined the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The company has not yet determined the impact of the amendments to IAS 28 on its consolidated financial statements.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgements and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The company has not yet determined the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurements

In May 2011, the IASB issued IFRS 13, Fair Value Measurements ("IFRS 13"). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enable the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The company has not determined the impact of IFRS 13 on its financial statements.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"). The amendments require that items of other comprehensive income are grouped into two categories: items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The company does not expect the amendments to IAS 1 to have a material impact on the financial statements.

3. Transition To IFRS

The company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for all periods up to and including December 31, 2010. These consolidated financial statements for the year ended December 31, 2011 are the first annual statements that have been prepared in accordance with IFRS.

The company adopted IFRS effective January 1, 2011. The company's transition date is January 1, 2010 and the company prepared its opening IFRS balance sheet at that date. These consolidated financial statements have been prepared in accordance with the accounting policies described in Note 2. This note explains the impact of the company's transition to IFRS.

(a) Elected exemptions from full retrospective application

These consolidated financial statements have been prepared in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). While IFRS 1 permits certain optional exemptions from full retrospective application of IFRS, the company has not used any of these exemptions.

(b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the company has applied the mandatory exception to full retrospective application of IFRS regarding estimates. Specifically, hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.

(c) Significant differences between IFRS and Canadian GAAP

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has no impact on the cash flows generated by the company, however, the adoption of IFRS resulted in the following changes to the reported financial position and results of operations of the company:

(i) Foreign exchange gains and losses on available-for-sale debt securities

Under Canadian GAAP, foreign exchange gains and losses on available-for-sale debt securities are recorded in other comprehensive income whereas under IFRS these gains or losses are recorded directly to profit or loss. This difference does not impact comprehensive income or total shareholder's equity reported by the company because any impact to net income is equally offset by a change in other comprehensive income.

(ii) Deferred taxes

Deferred taxes related to the adjustment as described above.

(iii) Provisions

Under IFRS, provisions should be recorded to reflect obligations present at the end of the reporting period if it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made. A provision recognized in the financial statements should be recorded at the current best estimate of the amount required to settle an obligation at the end of the reporting period. Canadian GAAP does not provide guidance on the timing of recognition and quantification of provisions.

(d) Reconciliation of equity as reported under Canadian GAAP to IFRS

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at January 1, 2010:

Thousands	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
As reported under Canadian GAAP	$ 84,904	$ 743,969	$ 65,584	$ 894,457
Foreign exchange on available-for-sale debt securities	—	550	(550)	—
Deferred taxes	—	(78)	78	—
Provisions	—	—	1,612	1,612
As reported under IFRS	$ 84,904	$ 744,441	$ 66,724	$ 896,069

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at December 31, 2010:

Thousands	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
As reported under Canadian GAAP	$ 84,803	$ 1,242,294	$ 79,602	$ 1,406,699
Foreign exchange on available-for-sale debt securities	—	2,649	(2,649)	—
Deferred taxes	—	(374)	374	—
Provisions	—	—	1,612	1,612
As reported under IFRS	$ 84,803	$ 1,244,569	$ 78,939	$ 1,408,311

(e) Reconciliation of comprehensive income as reported under Canadian GAAP to IFRS

The following is a reconciliation of the company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2010:

Thousands	Net Income	Other Comprehensive Income	Comprehensive Income
As reported under Canadian GAAP	$ 14,930	$ 498,325	$ 513,255
Foreign exchange on available-for-sale debt securities	(2,099)	2,099	—
Deferred taxes	296	(296)	—
As reported under IFRS	$ 13,127	$ 500,128	$ 513,255

4. Fair Values of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for that instrument to which the company has immediate access. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used.

Financial instruments classified as available-for-sale are carried at fair value on the Consolidated Balance Sheets. Any changes in the fair values of financial instruments classified as available-for-sale are recognized in Other Comprehensive Income, net of income taxes. The cumulative changes in the fair values of available-for-sale securities previously recognized in Accumulated Other Comprehensive Income are reclassified to Net Income when the underlying security is either sold or there is a decline in value that is considered to be other-than-temporary.

As at December 31, 2011, a cumulative pre-tax gain of $1,193.9 million (December 31, 2010 – $1,462.9 million; January 1. 2010 – $917.3 million) has been recognized for financial instruments classified as available-for-sale, over the historical cost amounts.

Financial Instrument Disclosures

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation of these assets and liabilities, are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the assets or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs used in determining the estimate.

The fair value of the company's investment portfolio at December 31, 2011 includes $1,634.8 million (December 31, 2010 – $1,926.4 million; January 1, 2010 – $1,365.9 million) as determined using level 1 measures and $nil (December, 31, 2010 – $13.7 million; January 1, 2010 – $nil) as determined using level 2 measures. There were no changes made to the financial instrument classifications during the year.

5. Investment Portfolio

The company's investment portfolio consists of the following:

	Number of shares					
Thousands	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010	**Dec. 31, 2011**	Dec. 31, 2010	Jan 1, 2010
Brookfield	**56,226**	55,466	55,466	**$ 1,572,085**	$ 1,838,706	$ 1,294,582
Other securities				**118,412**	101,372	71,279
				$ 1,690,497	$ 1,940,078	$ 1,365,861

The company owns 56.2 million (2010 – 55.5 million) Class A Limited Voting Shares of Brookfield ("Class A Shares") representing a 9.0% (2010 – 9.6%) fully diluted equity interest.

Other securities consists of 2.2 million Partnership Units of Brookfield Infrastructure Partners and 6.1 million units of a publicly listed fund.

The company's investments in the Class A Shares and the Brookfield Infrastructure Partners units are classified as available-for-sale. The company's 47% equity interest in a publicly listed fund is accounted for using the equity method, and had a carrying amount of $55.7 million at December 31, 2011 (2010 – $nil).

The company's investment in Brookfield Infrastructure Partners is classified as current whereas the investment in Brookfield is classified as non-current.

6. Retractable Preferred Shares

Retractable preferred shares issued by BAM Split are non-current liabilities and are comprised of the following:

	Issued and Outstanding					
Thousands, except shares outstanding	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
4.95% Class AA, Series I	**2,057**	2,057	2,057	**$ 51,430**	$ 51,430	$ 51,430
4.35% Class AA, Series III	**7,637**	7,637	7,637	**190,920**	190,920	190,920
7.25% Class AA, Series IV	**5,000**	5,000	5,000	**125,000**	125,000	125,000
4.85% Class AA, Series V	**5,000**	5,000	—	**125,000**	125,000	—
				492,350	492,350	367,350
Deferred financing costs[1]				**(5,632)**	(8,038)	(5,773)
				$ 486,718	$ 484,312	$ 361,577

1 Deferred financing costs are amortized over the term of the borrowing following the effective interest method.

Retractable Preferred Shares issued by BAM Split include Class AA, Series I, Class AA, Series III, Class AA, Series IV and Class AA, Series V Preferred Shares. BAM Split is authorized to issue an unlimited number of Class A Preferred Shares and Class AA Preferred Shares.

The Board of Directors of BAM Split have the authority to fix the number of shares that will form each series and determine the rights, restrictions and conditions attached to each series. Any new series will be issued for a price of $25.00 per share and the proceeds are to be used to finance the retraction or redemption of outstanding Preferred Shares without necessitating the sale of Class AA Shares or facilitating the acquisition of additional Class AA Shares.

Holders of Class AA, Preferred Shares, Series I; Class AA, Preferred Shares, Series III; Class AA Preferred Shares, Series IV and Class AA, Series V Preferred Shares are entitled to receive cumulative quarterly dividends of $0.309375, $0.271875, $0.453125 and $0.303125 per share respectively, payable on the 7th day of March, June, September and December in each year.

Class AA, Series I Preferred Shares may be surrendered for retraction at any time. The Class AA, Series I Preferred Share Retraction Price will be paid in cash equal to the lesser of (i) 95% of Net Asset Value per Unit of BAM Split; and (ii) $25.00 less 5% of the Net Asset Value per Unit of BAM Split, in either case less $1.00.

Class AA, Series III, Series IV and Series V Preferred Shares may be surrendered for retraction at any time. The Class AA Series III, Series IV and Series V Retraction Price will be equal to the lesser of (i) Net Asset Value per Unit of BAM Split (ii) $25.00. Retraction Consideration will be a number of Series 1, Series 2 and Series 3 Debentures, respectively, determined by dividing the Retraction Price by $25.00.

The Series 1 Debentures will have a principal amount of $25.00 per debenture and will mature on January 10, 2019. Holders of the Series 1 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 4.45% per annum paid on or about the 7th day of March, June, September and December in each year. The Series I Debentures shall be redeemable by the company at any time. The Series 1 debentures may not be retracted.

The Series 2 Debentures will have a principal amount of $25.00 per debenture and will mature on July 9, 2014. Holders of the Series 2 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 7.35% per annum paid on or about the 7th day of March, June, September and December in each year. The Series 2 Debentures shall be redeemable by the company at any time. The Series 2 Debentures may not be retracted.

The Series 3 Debentures will have a principal amount of $25.00 per debenture and will mature on December 10, 2017. Holders of the Series 3 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 4.95% per annum paid on or about the 7th day of March, June, September and December in each year. The Series 3 Debentures shall be redeemable by the company at any time. The Series 3 Debentures may not be retracted.

The "Net Asset Value per Unit" is defined as the fair value of the Portfolio shares held by BAM Split plus (minus) the amount by which the value of the other assets of BAM Split exceed (are less than) the liabilities (including any extraordinary liabilities) of BAM Split and the redemption value of the preferred shares, divided by the total number of Units outstanding. A "Unit" is considered to consist of one capital share and one Preferred share of any class or series. For greater certainty, the Class AA Series I, III, IV and V Preferred Shares will not be treated as liabilities for purposes of determining Net Asset Value per Unit. The fair values of these shares based on quoted market prices as at December 31, 2011 were $25.00 and $22.10 and $26.70 and $23.78 per share, respectively.

7. Shareholders' Equity

Authorized

50,000,000 preferred shares, issuable in series.
An unlimited number of voting and non-voting common shares.

Issued and outstanding	Number Outstanding			Book Value		
Thousands	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010	**Dec. 31, 2011**	Dec. 31, 2010	Jan. 1, 2010
Common shares, voting and non-voting	**74,207**	79,207	79,300	**$ 79,450**	$ 84,803	$ 84,904
Accumulated other comprehensive income				**1,021,044**	1,244,569	744,441
Retained earnings				**2,321**	78,939	66,724
				$ 1,102,815	$ 1,408,311	$ 896,069

The company repurchased 100 common shares during the year ended December 31, 2011 through the facilities of the Toronto Stock Exchange under its normal course issuer bid and repurchased 5,000,000 of its common shares through a substantial issuer bid. The company paid $84.1 million in relation to the share repurchases in 2011.

Accumulated other comprehensive income includes unrealized gains on the company's available-for-sale investments and the corresponding deferred taxes.

8. Net Income Per Common Share

Net income per common share is calculated based on the weighted average number outstanding shares during the year. For the year ended December 31, 2011, the weighed average number of outstanding shares were 76,289,852 (2010 – 79,227,318) on a fully diluted basis.

9. Income Taxes

The major components of income tax expense (recovery) for the years ended December 31, 2011 and December 31, 2010 are set out below:

(thousands)	**2011**	2010
Current income tax expense	**189**	2,011
Deferred income tax expense (recovery)	**456**	(583)
Income tax expense	**645**	1,428

The company's effective tax rate is different from the company's statutory income tax rate due to the differences set out below:

(thousands)	**2011**	2010
Statutory income tax rate	**28.25%**	31.00%
Tax payable at statutory rate	**774**	4,512
Increase (reduction) in income tax expense resulting from:		
Non-taxable dividends	**(8,070)**	(9,198)
Non-deductible expenses	**7,292**	6,173
Other	**649**	(59)
Income tax expense	**645**	1,428

Deferred income tax assets and liabilities as at December 31, 2011 and December 31, 2010 relate to the following:

(thousands)	**December 31, 2011**	December 31, 2010	January 1, 2010
Non-capital losses	**1,187**	542	—
Capital losses	**84**	—	—
Difference in basis	**(133,862)**	(183,345)	(133,233)
Total net deferred tax liability	**(132,591)**	(182,803)	(133,233)
Deferred income tax asset	**1,271**	542	—
Deferred income tax liability	**(133,862)**	(183,345)	(133,233)
Total net deferred tax liability	**(132,591)**	(182,803)	(133,233)

10. Related Party Transactions

Brookfield provided management and financial services to the company during 2011 and 2010 and recovered costs of $40,000 in 2011 (2010 – $40,000) in respect of those services.

At December 31, 2011 the company had $29.0 million (2010 – $nil) of its cash on short-term deposit with Brookfield.

Brookfield Investment Management Inc. ("BIM"), a subsidiary of Brookfield, provided investment management services to the company in relation to its high-yield bond portfolio which was sold on April 1, 2011. The company paid $58,000 (2010 – $185,000) in respect of those services.

The company sold its direct investment in its high-yield bond portfolio to a publicly listed fund that is managed by BIM and recognized a gain of $1.8 million. The proceeds were used to purchase 6.1 million units of the publicly listed fund, which owns an economic interest in a similar portfolio. The transaction was recorded at market value.

11. Risk Management

The company's activities expose it to a variety of financial risks, including market risk (i.e., currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The following are risk factors relating to an investment in the common shares of the company.

Market Price Risk

The value of the Class A Shares and the company's other securities are exposed to variability in fair value due to movements in equity prices. As a result, the fair value of the company's investment portfolio may vary from time to time. The company records these investments at market value. A $1.00 increase in the market price of Brookfield would increase the carrying value of the investment by $56.2 million (2010 – $55.5 million), which would have resulted in an increase to other comprehensive income of $56.2 million (2010 – $55.5 million) on a pre-tax basis.

Foreign Currency Risk

Brookfield declares dividends in U.S. dollars, which are then converted to Canadian dollars for distribution to Canadian shareholders, including the company. In addition, Brookfield Infrastructure declares distributions in U.S. dollars. During the year ended December 31, 2011, a $0.01 depreciation in the U.S. dollar relative to the Canadian dollar would have decreased net income by $0.3 million related to the Brookfield dividends and the Brookfield Infrastructure distributions.

Changes in the Canadian dollar relative to the U.S. dollar impacts the quoted market value of the company's investment in Brookfield Infrastructure. During the year ended December 31, 2011, a $0.01 appreciation in the U.S. dollar relative to the Canadian dollar would have increased Other Comprehensive Income by approximately $0.6 million relating to the value of these investments.

Interest Rate Risk

The company's preference shares are fixed rate and the company has negligible floating rate assets or liabilities. Accordingly, changes in the interest rates do not have an impact on Net Income or Other Comprehensive Income.

Liquidity Risk

The company's retractable preference shares expose the company to liquidity risk to fund retractions and redemptions as well as dividend and interest obligations. The company endeavors to maintain dividend income within the subsidiary that issued the preference shares that exceeds the projected dividend obligations, and expects to be able to continue to achieve this objective based on current circumstances. Management expects to fund any retraction obligations through a combination of ongoing cash flow, the proceeds from any new financings and proceeds from the sale of securities.

12. Capital Management

The capital base managed by the company consists of common equity with a carrying value of $1,103 million at December 31, 2011 and $492 million of retractable fixed rate preferred shares issued by BAM Split Corp. There have been no material changes in the company's capital during the year ended December 31, 2011. The company has complied with all covenants, which are limited, and is not subject to any externally imposed capital requirements.

13. Other Items

(i) Guarantees

In the normal course of operations, the company may execute agreements that provide for indemnifications and guarantees to third parties in transactions such as business dispositions, business acquisitions and the sale of assets. Historically, the company has not made any payments under such indemnification agreements and guarantees.

(ii) Cash and Equivalents

Cash and equivalents are comprised of cash on hand and short-term deposits. The company held $29 million of short-term deposits at December 31, 2011 (2010 – $nil).

(iii) Supplemental Cash Flow Information

(thousands)	**2011**	2010
Cash interest and dividends received	**$ 37,239**	$ 35,922
Retractable preferred share dividends paid	**(25,789)**	(19,914)
Income taxes recovered (paid)	**2,446**	(2,593)

Corporate Information

Directors

Edward C. Kress
Corporate Director

Brian D. Lawson
Chief Financial Officer
Brookfield Asset Management Inc.

R. Frank Lewarne [1, 2]
Corporate Director

Frank N.C. Lochan [1, 2]
Corporate Director

Ralph J. Zarboni [1, 2]
Chairman and Chief Executive Officer
The EM Group Inc.

[1] *Member of the Audit Committee*
[2] *Member of the Governance Committee*

Officers

Frank N.C. Lochan
Chairman

Edward C. Kress
President

Derek E. Gorgi
Vice President, Finance

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TSX Venture Exchange

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