BAM INVESTMENTS CORP.

# 2012 Annual Report

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***Forward-Looking Information***

*This annual 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 annual 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 annual 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*<br>(C$ *Thousands, except per share amounts)* | **Dec 31, 2012** | Dec 31, 2011 |
|---|---|---|
| **Assets** | | |
| Cash and equivalents | **$ 25,882** | $ 30,904 |
| Investments | | |
| Brookfield Asset Management Inc.[1] | **2,033,703** | 1,572,085 |
| Other securities | **159,706** | 118,412 |
| Accounts receivable and other | **1,269** | 1,245 |
| | **$ 2,220,560** | $ 1,722,646 |
| **Liabilities and Shareholders' Equity** | | |
| Accounts payable and other | **$ 277** | $ 522 |
| Retractable preferred shares[2] | **488,139** | 486,718 |
| Deferred taxes[3] | **197,398** | 132,591 |
| | **685,814** | 619,831 |
| **Shareholders' Equity** | | |
| Common equity | **1,534,746** | 1,102,815 |
| | **$ 2,220,560** | $ 1,722,646 |
| **Net Book Value Per Common Share[4,5]** | **$ 20.68** | $ 14.86 |

*Notes:*

1 *The investment in Brookfield Asset Management Inc. consists of 56.2 million Brookfield Class A Shares at a bid price of $36.17 per Class A Share as at December 31, 2012 (December 31, 2011 - $27.96).*

2 *Represents $492.4 million of retractable preferred shares less $4.2 million of unamortized issue costs. (December 31, 2011 - $492.4 million less $5.6 million).*

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, 2012, there were 74,206,510 (December 31, 2011 – 74,206,510) 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 years ended December 31*<br>*(C$ Thousands, except per share amounts)* | **2012**<br>**Total** | <br>**Per Share** | 2011<br>Total | <br>Per Share |
|---|---|---|---|---|
| Net book value, beginning of year[1] | **$ 1,102,815** | **$ 14.86** | $ 1,408,311 | $ 17.78 |
| Net income[2] | **19,120** | **0.25** | 2,085 | 0.03 |
| Other comprehensive (loss) income[2] | **412,811** | **5.57** | (223,525) | (2.97) |
| Common shares repurchased | | | (84,056) | 0.02 |
| Net book value, end of year[1,3] | **$ 1,534,746** | **$ 20.68** | $ 1,102,815 | $ 14.86 |

*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, 2012 was 74,206,510 (December 31, 2011 – 76,289,852).*

3 *As at December 31, 2012, there were 74,206,510 (December 31, 2011 – 74,206,510) voting and non-voting common shares of the Company issued and outstanding on a fully diluted basis.*

## Overview

BAM Investments Corp., (the "Company" or "BAM Investments") is a leveraged investment Company whose principal investment is a direct and indirect ownership interest in 56.2 million Class A Limited Voting Shares ("Brookfield 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, 2012.

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 or BAM Split's website at www.bamsplit.com.

## Results of Operations

### Overview

BAM Investments recorded income from operations of $13.1 million for the year ended December 31, 2012 compared to $11.7 million in the prior year. The increase in income from operations compared to the prior year was driven by increases in dividend income from its Brookfield Class A Shares and increased distributions received from its equity accounted investment.

The Company recorded net income of $19.1 million ($0.26 per common share) for the year ended December 31, 2012 compared to $2.1 million ($0.03 per common share) in the prior year. The increase in net income compared to the prior year was primarily the result of an increase in equity accounted income, as a publicly listed fund held by the Company recorded increased valuation gains.

The Company's net book value increased by $5.82 per share to $20.68 per share at December 31, 2012, primarily 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:

| *(C$ Thousands)* | **2012** | 2011 | Variance |
|---|---|---|---|
| Investment Income | | | |
| Dividends and interest | **$ 34,871** | $ 33,672 | $ 1,199 |
| Cash portion of equity accounted income[1] | **4,880** | 3,660 | 1,220 |
| Gain on sale of investments | **—** | 846 | (846) |
| | **39,751** | 38,178 | 1,573 |
| Less: | | | |
| Operating expenses | **705** | 695 | 10 |
| Retractable preferred share dividends | **25,977** | 25,789 | 188 |
| Income from operations[2] | **13,069** | 11,694 | 1,375 |
| Adjust for other items: | | | |
| Non-cash portion of equity accounted income[1] | **9,642** | (5,316) | 14,958 |
| Foreign currency revaluation | **—** | (1,202) | 1,202 |
| Amortization of deferred financing costs | **(1,421)** | (2,446) | 1,025 |
| Income tax expense | **(2,170)** | (645) | (1,525) |
| Net income | **$ 19,120** | $ 2,085 | $ 17,035 |

*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 year. 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:

| *(C$ Thousands)* | | **2012** | | 2011 |
|---|---|---|---|---|
| Dividends: | | | | |
| Brookfield | **$** | **30,769** | $ | 28,549 |
| Other | | **8,200** | | 6,599 |
| Interest income | | **782** | | 2,184 |
| Dividend and interest income | | **39,751** | | 37,332 |
| Gain on sale of investments | | — | | 846 |
| | **$** | **39,751** | $ | 38,178 |

The Company received dividend income of $30.8 million (2011 – $28.5 million) from its investment in Brookfield. In the second quarter of 2012, Brookfield increased its quarterly dividend distribution from U.S. $0.13 per share to U.S.$0.14 per share resulting in an increase of approximately $1.7 million in Brookfield related dividend income. In addition, the Company's Brookfield related dividend income, which is recorded in Canadian dollars, increased by approximately $0.6 million due to a stronger U.S. dollar relative to the prior year as a result of Brookfield's dividends being declared in U.S. dollars.

### Equity Accounted Investments

The Company recorded a $14.5 million (2011 - $1.6 million loss) on its proportionate share of its investment in a publicly listed fund acquired in April 2011. The equity accounted income recorded in the current year consisted of $4.9 million of distributions received, which are included in investment income, and a $9.6 million unrealized gain (2011- $5.3 million unrealized loss) on the mark-to-market of the fund's investment portfolio which is recorded as non-cash income and included in other items.

### 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. In 2012, the Company did not hold any U.S. dollar bonds resulting in the Company no longer recording a foreign currency revaluation gain or loss in net income.

### 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 $1.4 million in 2012 (2011 – $2.4 million). The decrease in deferred financing fees in the current year is a result of the Class AA, Series III Preferred Shares' financing fees now being fully amortized.

### Income Taxes

The Company recorded an income tax expense of $2.2 million during 2012 (2011 - $0.6 million). The increased tax expense in the current year is primarily the result of the increased market value of the Company's investment portfolio and recognition of the associated temporary differences.

## Financial Position

The Company's total assets totalled $2,220.6 million at December 31, 2012, versus $1,722.7 at the end of the prior year, and consist primarily of its $2,033.7 million investment in 56.2 million Brookfield Class A shares. The market price of a Brookfield Class A share increased from $27.96 per share at December 31, 2011 to $36.17 at December 31, 2012 contributing $461.6 million of the Company's total $497.9 million increase in total assets.

### Investment Portfolio

*Investment in Brookfield Asset Management Inc.*

The Company has classified its 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 property, renewable power, infrastructure and private equity with over $175 billion in assets under management and is co-listed on the New York and Toronto Stock Exchanges under the symbol BAM and BAM.A respectively. 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, 2011 – 2.2 million) Limited Partnership Units with a quoted market value of $77.4 million as at December 31, 2012 (December 31, 2011 - $62.7 million). This investment is classified as an available-for-sale financial instrument and, accordingly, changes in the market value of these units 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 this investment was $65.3 million as at December 31, 2012 (December 31, 2011 - $55.7 million). 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 investor's income as equity accounted income in the Consolidated Statement of Operations.

### Subsequent Event

On March 7, 2013, the Company acquired 2,000,000 or 100%, of the capital shares of Global Champions Split Corp. ("Global Champions"). Global Champions is a mutual fund corporation which invests in a diversified portfolio of large capitalization companies that its investment manager, Brookfield Investment Management (Canada) Inc., believes are best in class within their respective industries. Global Champions invests in the portfolio to generate fixed cumulative quarterly cash distributions for the holders of its public Class A Preferred Shares, Series 1 and to enable the holders of its capital shares to participate in any capital appreciation in the securities that comprise the portfolio.

### Deferred Taxes

The deferred tax liability represents the potential tax liability based on the excess of the carrying value of the Company's net assets over the respective tax values, less available loss carry forwards. The potential tax liability increased during the year primarily due to the increase in the market value of the Company's investment portfolio, namely the Brookfield Class A Shares.

## Liquidity and Capital Resources

The Company holds cash and equivalents totalling $25.9 million and marketable securities of $159.7 million as at December 31, 2012. The Company does not have any maturing debt or mandatory preferred share redemptions prior to July 2014. The operating cash requirements for 2013 include $26.0 million of scheduled dividend payments on the $492.4 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.

### Retractable Preferred Shares

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

| *C$ Thousands, except shares outstanding* | | Latest Redemption Date | **Dec. 31, 2012** | Dec. 31, 2011 |
|---|---|---|---|---|
| 2,057,200 | 4.95% Class AA, Series I | March 25, 2016 | **$ 51,430** | $ 51,430 |
| 7,636,800 | 4.35% Class AA, Series III | January 10, 2019 | **190,920** | 190,920 |
| 5,000,000 | 7.25% Class AA, Series IV | July 9, 2014 | **125,000** | 125,000 |
| 5,000,000 | 4.85% Class AA, Series V | December 10, 2017 | **125,000** | 125,000 |
| | | | **492,350** | 492,350 |
| Deferred financing costs[1] | | | **(4,211)** | (5,632) |
| | | | **$ 488,139** | $ 486,718 |

*Notes:*

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

**Shareholders' equity**

As at December 31, 2012 shareholders' equity consisted of 74,206,510 voting and non-voting common shares and had a book value of $1,534.8 million compared to $1,102.8 million at the end of 2011. The increase in book value is primarily the result of a higher market value of the Brookfield Class A Shares, whose share price increased by $8.21 per share from $27.96 at December 31, 2011 to $36.17 at December 31, 2012.

## 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 the Company's investment portfolio may vary according to the value of the Brookfield Class A Shares and other securities held by the Company. Additionally, 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 Company's investment portfolio will be largely dependent on the value of the Brookfield Class A Shares. A material adverse change in the business, financial conditions or results of operations of Brookfield and other investors of the Company will have a material adverse effect on the investment portfolio 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 investment portfolio on the value of the Brookfield 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, these 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 investment portfolio 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 its financial conditions.

**Liquidity**

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

Holders of the BAM Split 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 BAM Split or the Company have 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 Brookfield Class A Shares and not engage in trading, however shares are available to be sold to fund BAM Split retractions and redemptions of preferred shares or common shares. The Company's ability to sell a substantial portion of the Brookfield Class A Shares may be limited by resale restrictions under applicable securities laws that will affect when or to whom the Brookfield Class A Shares may be sold. Accordingly, if and when the Company is required to sell Brookfield Class A Shares, the liquidity of such shares may be limited. This could affect the time it takes to sell the Brookfield Class A Shares and the price obtained by the Company for the Brookfield Class A Shares sold.

### No Ownership Interest

A direct investment in common shares does not constitute a direct investment in the Brookfield Class A Shares or other securities held by the Company. Holders of common shares do not own the Brookfield 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 | | | |
|---|---|---|---|---|---|
| *C$ 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 | $ 8,498 | $ 2,546 | $ 5,092 | $ 860 | $ — |
| Class AA, Series III | 50,945 | 8,305 | 16,610 | 16,610 | 9,420 |
| Class AA, Series IV | 14,786 | 9,063 | 5,723 | — | — |
| Class AA, Series V | 29,097 | 6,063 | 12,125 | 6,063 | 4,846 |

*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, 2012, 2011 and 2010:

| *C$ Thousands, except per share amounts* | **2012** | 2011 | 2010 |
|---|---|---|---|
| Income from operations[1] | **$ 13,069** | $ 11,694 | $ 18,349 |
| Net income | **19,120** | 2,085 | 13,127 |
| Net income per common share | **0.26** | 0.03 | 0.17 |
| Total assets | **2,220,560** | 1,722,646 | 2,076,347 |
| Total long-term liabilities | **685,537** | 619,309 | 667,115 |

*Notes:*

1 *Income from operations is a non-IFRS measure used by the Company to better reflect the operating performance during the year. 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:

| | **2012** | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| *C$ Thousands, except per share amounts* | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 |
| Income from operations[1] | **$ 3,638** | **$ 3,454** | **$ 3,328** | **$ 2,649** | $ 2,919 | $ 2,527 | $ 4,274 | $ 1,974 |
| Net (loss) income | **5,089** | **4,828** | **3,658** | **5,545** | 3,275 | (2,786) | 1,537 | 59 |
| Net income per common share | **0.07** | **0.07** | **0.05** | **0.07** | 0.05 | (0.04) | 0.02 | 0.00 |

*Notes:*

1 *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 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 2012 and 2011 and recovered costs of $47,500 to December 31, 2012 (December 31, 2011 – $40,000) in respect of those services.

The Company's investment portfolio includes investments in entities managed by Brookfield including Brookfield Infrastructure Partners and the Brookfield New Horizons Income Fund (see 'Other securities").

At December 31, 2012 the Company had $24.2 million (December 31, 2011 – $29.0 million) of its cash and cash equivalents on short-term deposit with Brookfield.

## International Financial Reporting Standards ("IFRS")

### Future Changes in Accounting Standards

i. Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the International Accounting Standards Board ("IASB") issued three standards: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), 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.

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. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC–12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns. IFRS 10 requires continuous reassessment of changes in an investor's power over the investee and changes in the investor's exposure or rights to variable returns. The Company is currently evaluating the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC–13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. 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 is currently evaluating the impact of IFRS 11 and 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 judgments 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 of IFRS 12. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

ii. 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 enables 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, and 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 is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

iii. Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, Presentation of Financial Statements ("IAS 1"). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are 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 is currently evaluating the amendments to IAS 1 on its consolidated financial statements.

iv. Financial Instruments

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the International Accounting Standards Board ("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 consolidated 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; as well as 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, 2012 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, 2012 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 4, 2013

# Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and other financial information in this annual report 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 International Financial Reporting Standards as issued by the International Accounting Standards Board 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 LLP, the Independent Registered Chartered Accountants appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is on the following page.

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 4, 2013

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 Investments Corp., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, and the consolidated statements of operations, consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 audits 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 financial statements present fairly, in all material respects, the financial position of BAM Investments Corp. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Toronto, Canada
April 4, 2013

*Chartered Accountants*
*Licensed Public Accountants*

# Consolidated Balance Sheets

| (C$ Thousands) | Note | **December 31, 2012** | December 31, 2011 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **$ 25,882** | $ 30,904 |
| Accounts receivable and other | | **1,269** | 1,245 |
| Brookfield Asset Management Inc. | 4 | **2,033,703** | 1,572,085 |
| Other securities | 4 | **159,706** | 118,412 |
| | | **$ 2,220,560** | $ 1,722,646 |
| **Liabilities** | | | |
| Accounts payable and other | | **$ 277** | $ 522 |
| Retractable preferred shares | 5 | **488,139** | 486,718 |
| Deferred taxes | 8 | **197,398** | 132,591 |
| | | **685,814** | 619,831 |
| **Shareholders' Equity** | | | |
| Common equity | 6 | **1,534,746** | 1,102,815 |
| | | **$ 2,220,560** | $ 1,722,646 |

*See accompanying notes to financial statements.*

On behalf of the Board

Frank N.C. Lochan
*Director*

Edward C. Kress
*Director*

# Consolidated Statements of Operations

| *For the years ended December 31*<br>*(C$ Thousands, except per share amounts)* | **2012** | 2011 |
|---|---|---|
| **Investment Income** | | |
| Dividends and interest | **$ 34,871** | $ 33,672 |
| Gain on sale of investments | — | 846 |
| | **34,871** | 34,518 |
| **Expenses** | | |
| Operating | **705** | 695 |
| Retractable preferred share dividends | **25,977** | 25,789 |
| | **26,682** | 26,484 |
| | **8,189** | 8,034 |
| Equity accounted income | **14,522** | (1,656) |
| Amortization of deferred financing costs | **(1,421)** | (2,446) |
| Foreign currency revaluation | — | (1,202) |
| Current tax expense | **(508)** | (189) |
| Deferred tax expense | **(1,662)** | (456) |
| **Net income** | **$ 19,120** | $ 2,085 |
| **Net income per common share (Note 7)** | **$ 0.26** | $ 0.03 |

*See accompanying notes to financial statements.*

# Consolidated Statements of Comprehensive Income (Loss)

| *For the years ended December 31*<br>*(C$ Thousands)* | **2012** | 2011 |
|---|---|---|
| **Net income** | **$ 19,120** | $ 2,085 |
| Unrealized gain (loss) on available-for-sale securities | **475,956** | (274,194) |
| Deferred income taxes | **(63,145)** | 50,669 |
| Other comprehensive income (loss) | **412,811** | (223,525) |
| **Comprehensive income (loss)** | **$ 431,931** | $ (221,440) |

*See accompanying notes to financial statements.*

# Consolidated Statements of Changes in Equity

| *For the year ended December 31, 2012*<br>*(C$ Thousands)* | Note | Common Shares | Accumulated Other Comprehensive Income | Retained Earnings | Common Equity |
|---|---|---|---|---|---|
| Balance, beginning of year | | $ 79,450 | $ 1,021,044 | $ 2,321 | $ 1,102,815 |
| Net income | | — | — | 19,120 | 19,120 |
| Other comprehensive income | | — | 412,811 | — | 412,811 |
| Balance, end of year | 6 | $ 79,450 | $ 1,433,855 | $ 21,441 | $ 1,534,746 |

| *For the year ended* December *31, 2011*<br>*(C$ 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 | 6 | $ 79,450 | $ 1,021,044 | $ 2,321 | $ 1,102,815 |

*See accompanying notes to financial statements.*

# Consolidated Statements of Cash Flows

| *For the years ended December 31* *(C$ Thousands)* | Note | | 2012 | | 2011 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Net income | | **$** | **19,120** | $ | 2,085 |
| Add (deduct) non-cash items: | | | | | |
| Foreign currency revaluation | | | — | | 1,202 |
| Non-cash portion of equity accounted (income)/loss | | | **(9,642)** | | 5,316 |
| Gain on sale of investments | | | — | | (846) |
| Amortization of deferred financing costs | | | **1,421** | | 2,446 |
| Deferred tax expense | | | **1,662** | | 456 |
| | | | **12,561** | | 10,659 |
| Changes in working capital | | | **(269)** | | 1,524 |
| | | | **12,292** | | 12,183 |
| **Cash flow used in investing activities** | | | | | |
| Sale of investments | | | — | | 63,791 |
| Purchase of Brookfield Asset Management Inc. Class A Shares | | | — | | (24,966) |
| Purchase of other securities | | | **(17,314)** | | (68,996) |
| | | | **(17,314)** | | (30,171) |
| **Cash flow used in financing activities** | | | | | |
| Common shares repurchased | | | — | | (84,056) |
| | | | — | | (84,056) |
| **Cash and cash equivalents** | | | | | |
| Decrease during the year | | | **(5,022)** | | (102,044) |
| Balance, beginning of year | | | **30,904** | | 132,948 |
| **Balance, end of year** | 12 | **$** | **25,882** | $ | 30,904 |

*See accompanying notes to financial statements.*

# Notes To The Consolidated 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB").

These financial statements were authorized for issuance by the Board of Directors of the Company on March 28, 2013.

### (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 represent current assets and liabilities. The balances are classified as loans and receivables or other financial liabilities and 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 instrumants 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 which is recorded in other securities. 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 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; and the ability to utilize tax losses and other tax measurements.

**Future Changes in Accounting Policies**

i) Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the IASB issued three standards: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), *IFRS 11, Joint Arrangements* ("IFRS 11"), and IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), and amended two standards: IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, I*nvestments 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.

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. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. An investor must possess the following three elements to conclude it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 requires continuous reassessment of changes in an investor's power over the investee and changes in the investor's exposure or rights to variable returns. The Company is currently evaluating the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers.* IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS's. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. 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 is currently evaluating the impact of IFRS 11 and the amendments to IAS 28 on its consolidated financial statements.

IFRS 12 integrates the disclosure requirements of interests in other entities and requires a parent company to disclose information about significant judgments 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 of IFRS 12. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

ii) 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 enables 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, and 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 is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

iii) Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"). The amendments require that items of other comprehensive income be grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are 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 is currently evaluating the impact of the amendments to the IAS 1 on its consolidated financial statements.

iv) 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 consolidated financial statements.

## 3. 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, 2012, a cumulative pre-tax gain of $1,670.1 million (December 31, 2011 – $1,193.9 million) has been recognized for financial instruments classified as available-for-sale, over the historical cost amounts.

**Financial Instruments 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 asset 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, 2012 includes $2,128.1 million (December 31, 2011 – $1,634.8 million) as determined using level 1 measures and $nil (December, 31, 2011 – $nil) as determined using level 2 and level 3 measures. There were no changes made to the financial instrument classifications during the year.

## 4. Investment Portfolio

The Company's investment portfolio consists of the following:

| | Number of shares | | | |
|---|---|---|---|---|
| *(C$ Thousands)* | **Dec. 31, 2012** | Dec. 31, 2011 | **Dec. 31, 2012** | Dec. 31, 2011 |
| Brookfield | **56,226** | 56,226 | **$ 2,033,703** | $ 1,572,085 |
| Other securities | | | **159,706** | 118,412 |
| | | | **$ 2,193,409** | $ 1,690,497 |

The Company owns 56.2 million (2011 – 56.2 million) Class A Limited Voting Shares of Brookfield ("Class A Shares") representing an approximate 8.5% (2011 – 9.0%) fully diluted equity interest.

As at December 31, 2012 other securities consisted of 2.2 million Partnership Units (December 31, 2011- 2.2 million) of Brookfield Infrastructure Partners and 6.1 million units (December 31, 2011 - 6.1 million) of a publicly listed fund and other U.S. blue chip common equity positions.

The Company's investments in the Class A Shares, the Brookfield Infrastructure Partners units and its other common equity positions are all 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 $65.3 million at December 31, 2012 (December 31, 2011 – $55.7 million).

## 5. Retractable Preferred Shares

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

| | Issued and Outstanding | | | |
|---|---|---|---|---|
| *(C$ Thousands, except shares outstanding)* | **Dec. 31, 2012** | Dec. 31, 2011 | **Dec. 31, 2012** | Dec. 31, 2011 |
| 4.95% Class AA, Series I | **2,057** | 2,057 | **$ 51,430** | $ 51,430 |
| 4.35% Class AA, Series III | **7,637** | 7,637 | **190,920** | 190,920 |
| 7.25% Class AA, Series IV | **5,000** | 5,000 | **125,000** | 125,000 |
| 4.85% Class AA, Series V | **5,000** | 5,000 | **125,000** | 125,000 |
| | | | **492,350** | 492,350 |
| Deferred financing costs[1] | | | **(4,211)** | (5,632) |
| | | | **$ 488,139** | $ 486,718 |

*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 and (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, 2012 were $25.34 and $24.43 and $26.23 and $25.48 per share, respectively.

## 6. 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 | |
|---|---|---|---|---|
| *(C$ Thousands)* | **Dec. 31, 2012** | Dec. 31, 2011 | **Dec. 31, 2012** | Dec. 31, 2011 |
| Common shares, voting and non-voting | **74,207** | 74,207 | **$ 79,450** | $ 79,450 |
| Accumulated other comprehensive income | | | **1,433,855** | 1,021,044 |
| Retained earnings | | | **21,441** | 2,321 |
| | | | **$ 1,534,746** | $ 1,102,815 |

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

## 7. 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, 2012, the weighed average number of outstanding shares were 74,206,510 (2011 – 76,289,852 ) on a fully diluted basis.

## 8. Income Taxes

The major components of income tax expense for the years ended December 31, 2012 and December 31, 2011 are set out below:

| *(C$ Thousands)* | **2012** | 2011 |
|---|---|---|
| Current income tax expense | **$ 508** | $ 189 |
| Deferred income tax expense (recovery) | **1,662** | 456 |
| Income tax expense | **$ 2,170** | $ 645 |

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

| *(C$ Thousands)* | **2012** | 2011 |
|---|---|---|
| Statutory income tax rate | **26.50%** | 28.25% |
| Tax payable at statutory rate | **$ 5,642** | $ 774 |
| Increase (reduction) in income tax expense resulting from: | | |
| Non-taxable dividends | **(8,154)** | (8,070) |
| Non-deductible expenses | **6,884** | 7,292 |
| Other | **(2,202)** | 649 |
| Income tax expense | **$ 2,170** | $ 645 |

Deferred income tax assets and liabilities as at December 31, 2012 and December 31, 2011 relate to the following:

| *(C$ Thousands)* | **December 31, 2012** | December 31, 2011 |
|---|---|---|
| Non-capital losses | **$ 1,759** | $ 1,187 |
| Capital losses | **118** | 84 |
| Difference in basis | **(199,275)** | (133,862) |
| Total net deferred tax liability | **$ (197,398)** | $ (132,591) |
| Deferred income tax asset | **$ 1,877** | $ 1,271 |
| Deferred income tax liability | **(199,275)** | (133,862) |
| Total net deferred tax liability | **$ (197,398)** | $ (132,591) |

## 9. Related Party Transactions

Brookfield provided management and financial services to the Company during 2012 and 2011 and recovered costs of $47,500 in 2012 (2011 – $40,000) in respect of those services.

At December 31, 2012 the Company had $24.2 million (2011 – $29.0 million) of its cash and cash equivalents on short-term deposit with Brookfield.

## 10. 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 (2011 – $56.2 million), which would have resulted in an increase to other comprehensive income of $56.2 million (2011 – $56.2 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, 2012, 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, 2012, a $0.01 appreciation in the U.S. dollar relative to the Canadian dollar would have increased other comprehensive income by approximately $0.8 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.

## 11. Capital Management

As at December 31, 2012 the capital base managed by the Company consisted of common equity with a carrying value of $1,534.7 million (December 31, 2011 - $1,102.8 million) and $492.4 million (December 31, 2011 - $492.4 million) of retractable fixed rate preferred shares issued by BAM Split. There have been no material changes in the Company's capital during the year ended December 31, 2012. The Company has complied with all covenants, which are limited, and is not subject to any externally imposed capital requirements.

## 12. 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) Supplemental Cash Flow Information*

| *(C$ Thousands)* | **2012** | 2011 |
|---|---|---|
| Cash interest and dividends received | **$ 39,751** | $ 37,239 |
| Retractable preferred share dividends paid | **(25,977)** | (25,789) |
| Income taxes recovered (paid) | **(371)** | 2,446 |

## 13. Subsequent Event

On March 7, 2013, the Company acquired 2,000,000, or 100%, of the capital shares of Global Champions Split Corp. ("Global Champions"). Global Champions is a mutual fund corporation which invests in a diversified portfolio of large capitalization companies that its investment manager, Brookfield Investment Management (Canada) Inc., believes are best in class within their respective industries. Global Champions invests in the portfolio to generate fixed cumulative quarterly cash distributions for the holders of its public Class A Preferred Shares, Series 1 and to enable the holders of its capital shares to participate in any capital appreciation in the securities that comprise the portfolio.

# 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*

Allen G. Taylor
*Vice President, Finance*

Loretta M. Corso
*Corporate Secretary*

## Corporate Office

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Telephone: (416) 359-8620
Facsimile: (416) 365-9642

## Registrar and Transfer Agent

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Adelaide Street Postal Station
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Telephone: (416) 643-5500 or
(800) 387-0825 (toll free in North America)
Facsimile: (416) 643-5501
Web site: *www.cibcmellon.com*
E-mail: *inquiries@cibcmellon.com*

## Exchange Listing

TSX Venture Exchange

Stock Symbol: BNB

BAM INVESTMENTS CORP.

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