Management's Responsibility for Financial Statements

The accompanying 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 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 financial statements.

Brian D. Lawson
President
March 1, 2006

Auditors' Report

To the Shareholders of BNN Investments Ltd.

We have audited the consolidated balance sheets of BNN Investments Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Toronto, Canada
February 23, 2006

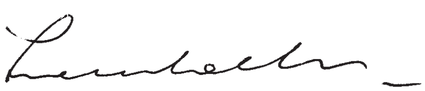
Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

$thousands	*Note*	**2005**	2004
Assets			
Cash and equivalents	*10*	**$ 4,425**	$ 10,282
Investment in Brookfield	*3*	**333,967**	333,967
Deferred financing costs		**2,683**	4,194
		$ 341,075	$ 348,443
Liabilities			
Accounts payable and provisions	*4*	**$ 1,974**	$ 1,992
Retractable preferred shares	*5*	**205,000**	205,000
		206,974	206,992
Shareholders' equity	*6*		
Preferred shares		**70,750**	70,750
Common shares		**86,648**	87,904
Deficit		**(23,297)**	(17,203)
		134,101	141,451
		$ 341,075	$ 348,443

On behalf of the Board



Frank N.C. Lochan
Director

Brian D. Lawson
Director

Consolidated Statements of Operations

For the years ended December 31

$thousands	*Note*		2005		2004
Investment income	*7, 10*	**$**	**12,693**	$	12,042
Expenses					
Operating	*10*		**534**		681
Interest	*10*		**—**		56
Amortization of deferred financing costs			**1,511**		1,319
Retractable preferred share dividends			**11,773**		10,517
			13,818		12,573
Net loss		**$**	**(1,125)**	$	(531)
Net loss per common share	*9*	**$**	**(1.48)**	$	(1.46)

Consolidated Statements of Deficit

For the years ended December 31

$thousands	*Note*		2005		2004
Deficit, beginning of year		**$**	**(17,203)**	$	(11,470)
Net loss			**(1,125)**		(531)
Preferred share dividends	*6*		**(4,969)**		(5,202)
Deficit, end of year		**$**	**(23,297)**	$	(17,203)

Consolidated Statements of Cash Flows

For the years ended December 31

$thousands		2005		2004
Cash flow from operating activities				
Net loss	**$**	**(1,125)**	$	(531)
Add (deduct) non-cash items				
Amortization of deferred financing costs		**1,511**		1,319
Changes in working capital		**(18)**		(34)
		368		754
Cash flow used in investing activities				
Purchase of Brookfield shares		**—**		(32,000)
Cash flow from (used in) financing activities				
Repayment of advance		**—**		(10,103)
Preferred shares repurchased		**—**		(20,000)
Retractable preferred shares issued		**—**		80,000
Preferred share dividends paid		**(4,969)**		(5,202)
Common shares repurchased		**(1,256)**		—
Share issue costs		**—**		(3,167)
		(6,225)		41,528
Cash and equivalents				
Increase (decrease)		**(5,857)**		10,282
Balance, beginning of year		**10,282**		—
Balance, end of year	**$**	**4,425**	$	10,282

Notes To The Consolidated Financial Statements

1. Business Operations

BNN Investments Ltd. (the "company") is an investment holding company incorporated under the laws of Ontario with a leveraged investment in Brookfield Asset Management Inc. ("Brookfield"). A Brookfield subsidiary provides management and administration services to the company. In the ordinary course of business, the company carries on securities and financing transactions with a subsidiary of Brookfield and its affiliates, generally on normal market terms (see Note 10). The consolidated financial statements include the accounts of the company's wholly-owned subsidiary, BNN Split Corp ("BNN Split").

2. Summary of Significant Accounting Policies

Income taxes
The company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on temporary differences between the carrying amount and tax bases of assets and liabilities, and unused income tax losses 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.

Cash and equivalents
Cash and equivalents includes cash on deposit with financial institutions and demand deposits with related parties.

Investment in Brookfield
The company accounts for its investment in Brookfield on the cost basis. The company does not meet the criteria of AcG-18, "Investment Companies" of the CICA Handbook which requires investments to be accounted for at fair value.

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

Deferred financing costs
Deferred financing costs relate to the issuance of retractable preferred shares of BNN Split and are amortized and charged against earnings over a period of five years.

Guarantees
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 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.

Basis of presentation
Certain comparative amounts have been reclassified to conform with the current year presentation.

3. Investment in Brookfield

As at December 31

$thousands	**2005**	2004
Brookfield Asset Management Inc.	**$ 333,967**	$ 333,967

The company owns 17.4 million (2004 – 17.4 million) Class A Limited Voting Shares of Brookfield representing a 6% (2004 - 7%) fully diluted equity interest in Brookfield, an asset management company with a focus on property, power and other infrastructure assets. The company purchased an additional 3 million Brookfield common shares during 2004 for $99.4 million. The company owns all of its Brookfield Class A Limited Voting Shares through a wholly-owned subsidiary, BNN Split Corp. During 2005, the company received dividends of $12.5 million (2004 – $11.8 million) from Brookfield. The quoted market value of this investment at December 31, 2005 was $1,020.9 million (2004 – $751.6 million).

The company accounts for its investment in Brookfield on the cost basis.

4. Accounts Payable and Provisions

$thousands	**2005**	2004
Accounts payable	**$ 552**	$ 570
Provisions	**1,422**	1,422
	$ 1,974	$ 1,992

Provisions are recorded for possible tax expenses and other financial obligations associated with the restructuring of the company.

5. Retractable Preferred Shares

$thousands	Issued		2005		2004
6.25% Class A	5,000,000 (2004 – 5,000,000)	**$**	**125,000**	$	125,000
4.95% Class AA, Series I	3,200,000 (2004 – 3,200,000)		**80,000**		80,000
		$	**205,000**	$	205,000

Retractable preferred shares issued by BNN Split include Class A and Class AA, Series 1 Preferred shares which entitle the holders of these shares to receive quarterly fixed cumulative dividends of $0.390625 per share and $0.309375 per share, respectively. The Class A shares will be redeemed on or before September 30, 2010, and the Class AA, Series I Preferred shares will be redeemed on or before March 25, 2016. The fair values of these shares based on quoted market prices as at December 31, 2005 were $26.80 and $27.09 per share, respectively.

6. Shareholders' Equity

Authorized

50,000,000 preferred shares, issuable in series.
An unlimited number of common shares.

Issued and outstanding

$thousands	Issued		2005		2004
Preferred shares Series II	1,965,384 (2004 – 1,965,384)	**$**	**65,000**	$	65,000
Preferred shares Series V	23 (2004 – 23)		**5,750**		5,750
Common shares	5,433,918 (2004 – 5,449,418)		**86,648**		87,904
Deficit			**(23,297)**		(17,203)
		$	**134,101**	$	141,451

The Series II Preferred shares are cumulative, voting, convertible into common shares on the basis of one common share for twenty Series II Preferred shares and redeemable at $32.50. The articles of the preferred shares provide for the payment of cumulative preferred share dividends at a rate of 10% per annum; however, the company's current dividend policy is to declare and pay dividends at a rate of 7%. As at December 31, 2005, the aggregate amount of cumulative unpaid preferred share dividends total $12.0 million (2004 – $10.1 million) and these have not been accrued in the financial statements. The Series V Preferred shares are cumulative and redeemable and provide for the payment of preferred share dividends at a rate of 7% per annum. During 2004, the company redeemed 650,000 Series II Preferred shares for $20 million cash and issued 1,050,793 common shares for $61.6 million and 23 Series V Preferred shares for $5.8 million as partial consideration for the acquisition of Brookfield Class A Limited Voting shares.

During 2005, the company repurchased 15,500 common shares at an average price per share of $81.03 through the facilities of the Toronto Stock Exchange under its normal course issuer bid.

7. Investment Income

$thousands		2005		2004
Interest and other	**$**	**148**	$	261
Brookfield Asset Management Inc. – dividends		**12,545**		11,781
	$	**12,693**	$	12,042

Interest income is earned on the company's cash and cash equivalents on deposit.

8. Income Taxes

$thousands		2005		2004
Statutory income tax rate	**$**	**36.0%**	$	36.0%
Tax recovery at effective rate		**(405)**		(191)
Increase (reductions) in income tax expense (recovery) resulting from:				
Dividends paid and received not subject to tax		**(278)**		(455)
Non-recognition of the benefit of current year's tax losses		**683**		646
Tax recovery recorded	**$**	**—**	$	—

The company has available non-capital losses of $29.1 million (2004 – $27.2 million). The non-capital losses expire in the period of 2007 to 2015. The tax bases of the company's common share investments exceed their accounting carrying value by $62.3 million (2004 – $62.3 million). No recognition has been given in these consolidated financial statements to the potential tax benefits of the losses or bases differences.

9. Net Loss per Common Share

The net loss per common share is calculated after deducting preferred share dividend entitlements and is based on 5,442,093 (2004 – 5,274,286) common shares, being the weighted average number outstanding during the year.

10. Related Party Transactions

Brookfield provided management and financial services to the company during 2005 and 2004 and recovered costs of $0.1 million in 2005 (2004 – $0.3 million) in respect of those services. The following balances pertained to Brookfield and its controlled and significantly influenced companies at December 31, 2005: cash and equivalents – $3.7 million, (2004 – $10.3 million); and investment income – $12.5 million (2004 – $11.8 million). These transactions have been recorded at their exchange values.

11. Financial Instruments

The fair value of the investment in Brookfield and the retractable preferred shares are based on quoted market values. The fair value of all other financial instruments approximate their carrying value due to their short-term nature.