BAM INVESTMENTS CORP.

2006 Annual Report

Financial Summary

As at December 31	**2006**		2005	
$thousands, except per share amounts	**Net Asset Value[1]**	**Book Value**	Net Asset Value[1]	Book Value
Total assets	**$ 2,089,497**	**$ 422,804**	$ 1,025,294	$ 282,913
Shareholders' equity	**1,810,081**	**143,388**	818,320	75,939
Per common share	**219.01**	**9.15**	137.37	0.95

(1) Based on a market price of $56.36 per Class A Limited Voting Share of Brookfield Asset Management Inc. at December 31, 2006 (2005 – $39.07).

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Overview

BAM Investments Corp. ("BAM Investments" or the "company") is a leveraged investment company whose principal investment is in Class A Limited Voting Shares ("common 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. Operating cash flows, which consist principally of dividends from its investment in Brookfield common shares, will be dedicated to paying interest, if any, and dividends on its preferred financing obligations. The company's investment in Brookfield is partially owned through BAM Split Corp. ("BAM Split"), a public subsidiary in which BAM Investments owns 100% of the common equity , and which has issued $205.0 million of publicly listed retractable preferred shares. The accounts of BAM Split are consolidated in BAM Investments' financial statements. Additional information, including the company's annual information form, is available on SEDAR's website *www.sedar.com*

Significant Transaction

In July, 2006, BAM Investments completed the purchase of 10.9 million common shares of Brookfield valued at $499 million from Partners Limited ("Partners") in exchange for the issuance to Partners of 2,507,973 common shares of BAM Investments and a $72 million promissory note payable to Partners. The Brookfield common shares were ascribed a carrying value of $140.1 million, representing the carrying value of the shares in the accounts of the vendor, because the vendor is a related party of the company for accounting purposes. The purchase of the shares gave rise to a future tax liability of $11.2 million. The common shares issued by the company were recorded at $56.5 million net of issue costs, representing the difference between recorded amount of the purchased shares and the $72 million promissory note and future tax liability.

Results of Operations

The following table reconciles the company's net income before future tax recovery to net income for common shareholders:

$thousands, except per share amounts	**2006**	2005	Change in year
Net income (loss) before tax	**$ 5,374**	$ (1,125)	$ 6,499
Future tax asset recovery	**10,483**	—	10,483
Net income (loss)	**15,857**	(1,125)	16,982
Preferred share dividends	**(4,953)**	(4,969)	16
Net income (loss) for common shareholders*	**$ 10,904**	$ (6,094)	$ 16,998
Weighted average common shares outstanding	**6,688**	5,442	1,246
Net income (loss) for common shares*	**$ 1.34**	$ (1.48)	$ 2.82

* *Non-GAAP measures*

Overview

Net income increased to $15.9 million in 2006, representing an increase of $17.0 million over the $1.1 million loss recorded in 2005. The increase results from growth in net income before taxes of $6.5 million due primarily to $8.5 million of increased dividends from our investment in Brookfield offset by $2.2 million of additional interest expense incurred during the year. Net income after taxes further benefited from a $10.5 million tax recovery. Preferred share dividends were unchanged at approximately $4.9 million.

The weighted average number of common shares outstanding during the year increased to 6,687,904 in 2006 from 5,442,093 in 2005 due to the issuance of 2,507,973 common shares in July 2006 as partial consideration for the purchase of additional Brookfield shares.

Income from Brookfield

BAM Investments accounts for its investment in Brookfield on the cost basis, and accordingly, recognizes dividends as income on the ex-dividend date. Brookfield paid dividends totalling US$0.58 per share during 2006 compared with US$0.39 per share in 2005 and has declared dividends per share of US$0.16 and US$0.18 payable on February 28, 2007 and May 31, 2007, respectively. Total dividends earned in 2006 from the company's investment in Brookfield were $21.0 million, compared with $12.5 million in 2005. The increase for 2006 is attributable to the increase in Brookfield's dividend rate as well as the 10.9 million additional Brookfield common shares acquired during the third quarter.

Expenses

Interest expense of $2.2 million during 2006 was incurred in respect of the $72 million promissory note issued in July 2006 as partial consideration for the Brookfield shares purchased at that time. The amortization of deferred financing costs associated with the retractable preferred shares issued by BAM Split in prior years resulted in a charge against income of $1.3 million during 2006 compared to $1.5 million in 2005. The decrease is due to the completion of the amortization period for costs associated with the issuance of retractable preferred shares by BAM Split in September 2001. Retractable preferred share dividends of $11.8 million during 2006 were consistent with the amount recorded last year as there was no change in the retractable preferred shares outstanding in the last two years.

Balance Sheet Analysis

Investment in Brookfield

The investment in Brookfield at December 31, 2006 consists of 36,977,485 common shares with a book value of $416.0 million representing a 9.1% (2005 – 6%) fully diluted equity interest. As described under Significant Transaction on the previous page, the company acquired 10,850,485 common shares during the year with a carrying value of $140.1 million. The quoted market value of this investment as at December 31, 2006 was $56.36 per share or $2,084 million. Brookfield is a global asset management company, focused on property, power and infrastructure assets, and has approximately US$70 billion of assets under management. Brookfield is co-listed on the New York and Toronto stock exchanges.

Accounts receivable and other

The increase in accounts receivable relates primarily to recoverable tax balances. Deferred financing costs represent costs incurred in connection with the issuance of $205.0 million retractable preferred shares by a subsidiary of the company. These costs are being amortized and charged against earnings over a period of five years from the date of incurrence.

Liquidity and Capital Resources

The company holds cash and equivalents totalling $3.9 million as at December 31, 2006. As noted below under Subsequent Events, the company raised $193 million in January 2007 which it used to repay the promissory note issued in July 2006 and to repurchase its Series II preferred shares. The company does not have any additional maturing debt or preferred share redemptions prior to 2010. The operating cash requirements for 2007 include interest and dividend payments on the $193.0 million exchangeable debentures and $405.0 million preferred shares issued by BAM Split Corp. 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 include $125 million 6.25% retractable preferred shares which will be redeemed on or before September 30, 2010, and $80 million 4.95% retractable preferred shares which will be redeemed on or before March 25, 2016.

Shareholders' equity

As at December 31, 2006, shareholders' equity consists of two series of perpetual preferred shares with a stated value of $70.8 million and 7,941,891 common shares with a net book value of $72.6 million. As at March 22, 2007, there has been no change in the common shares outstanding.

Preferred shares

$thousands	Issued	**2006**	2005
Series II	1,965,384 (2005 – 1,965,384)	**$ 65,000**	$ 65,000
Series V	23 (2005 – 23)	**5,750**	5,750

The articles of the Series II preferred shares provide for the payment of cumulative preferred share dividends at a rate of 10% per annum; however, the company's dividend policy is to pay dividends at a rate of 7%. As at December 31, 2006, the aggregate amount of cumulative unpaid preferred share dividends totalled $13.9 million (December 31, 2005 – $12.0 million). The Series II preferred shares were repurchased in January 2007 for $65 million, thereby extinguishing the cumulative unpaid dividends. The holders of the Series V preferred shares are entitled to receive dividends at a rate of 7%, and are expected to be redeemed during the first six months of 2007. As at March 22, 2007, there has been no change in the preferred shares outstanding.

Common Shares
In July 2006, the company issued 2,507,973 common shares valued at $427 million in connection with the acquisition of the Brookfield shares. The book value ascribed to the shares was $56.5 million as discussed previously under Significant Transaction.

Contractual Obligations

Retractable preferred shares issued by the company are presented by payment period as follows:

	Payment due by period				
$thousands	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Retractable preferred shares	$ 205,000	$ —	$ —	$ 125,000	$ 80,000
Retractable preferred share dividends	65,976	11,773	33,364	7,920	12,919

Statement of Financial Position

The calculated net asset value of the company's common shares on a pre-tax basis as at December 31, 2006, based on the stock market price of Brookfield's Class A shares at that date of $56.36, was $219.01 per share. A $1.00 change in the value of Brookfield's common shares results in a $4.65 change in the value of a BAM Investments Corp. common share. The table below illustrates the value of BAM Investments' common shares.

	As at December 31, 2006	
$thousands, except per share amounts	**Net Asset Value**(5)*	**Book Value**
Assets		
Cash and equivalents	$ 3,880	$ 3,880
Investment in Brookfield(1)	2,084,051	415,952
Accounts receivable and other	1,566	1,566
Deferred financing costs	—	1,406
	$ 2,089,497	$ 422,804
Liabilities(2)		
Loans payable	$ 72,367	$ 72,367
Accounts payable and provisions	2,049	2,049
Retractable preferred shares(3)	205,000	205,000
	279,416	279,416
Shareholders' Equity		
Preferred shares	70,750	70,750
Common shares(4)	1,739,331	72,638
	1,810,081	143,388
	$ 2,089,497	$ 422,804
Net asset value per common share(5)	$ 219.01	$ 9.15

Notes:
(1) The investment in Brookfield represents 36,977,485 common shares of Brookfield with a market price of $56.36 per share as at December 31, 2006.
(2) The net asset value of liabilities approximates their respective book values.
(3) Represents $205.0 million retractable preferred shares issued by BAM Split Corp., which is a subsidiary of the company.
(4) As at December 31, 2006, there were 7,941,897 common shares of the company issued and outstanding.
(5) Net asset value per common share does not take into account tax and transaction costs on disposition. The company has access to $52.2 million of available tax shield as a result of the tax value of the company's assets exceeding book value and $35.0 million of non-capital losses.
* Non-GAAP measures.

Corporate Developments

On August 12, 2006, BAM Investments received approval from the Toronto Stock Exchange for its proposed normal course issuer bid to purchase up to 294,000 common shares, representing approximately 10% of the public float of its currently outstanding common shares, which expires on August 11, 2007. No shares were purchased under the current normal course issuer bid during the year ended December 31, 2006.

At its meeting on March 1, 2006, the Board of Directors received shareholder approval to change the name of the company from BNN Investments Ltd. to BAM Investments Corp. to reflect the new ticker symbol, BAM, of its principal investee company, Brookfield.

Business Environment and Risks

The financial results of the company are impacted by the performance of the underlying investment in Brookfield. A discussion of Brookfield's business environment and risks is contained in Brookfield's management's discussion and analysis of financial results section of its 2006 Annual Report, which is available on that company's website *www.brookfield.com* and on SEDAR at *www.sedar.com.* In addition, the retractable feature of the preferred shares may require the company to fund any retractions out of capital resources including the sale of Brookfield shares.

Summary of Financial Information

The following table summarizes selected consolidated financial information of the company for the years ended December 31, 2004 to 2006:

	Years Ended December 31		
$thousands, except per share amounts	**2006**	2005	2004
Investment income	**$ 21,114**	$ 12,693	$ 12,042
Net income (loss)	**15,857**	(1,125)	(531)
Net income (loss) per common share	**1.34**	(1.48)	(1.46)
Total assets	**422,804**	282,913	290,281
Total long-term liabilities	**205,000**	205,000	205,000
Preferred share dividends paid per share			
Series II	**2.28**	2.28	2.28
Series V	**17,500.00**	17,500.00	17,500.00

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

	2006				2005			
$thousands, except per share amounts	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Investment income	**$ 6,719**	$ 6,730	$ 4,657	$ 3,008	$ 3,140	$ 3,191	$ 3,330	$ 3,032
Net income (loss)	**2,352**	1,554	12,464	(513)	(368)	(206)	(74)	(477)
Net income (loss) for common shareholders	**1,113**	316	11,226	(1,751)	(1,616)	(1,454)	(1,309)	(1,715)
Net income (loss) per common share	**0.03**	(0.03)	1.75	(0.41)	(0.39)	(0.36)	(0.33)	(0.40)

The increase in investment income over the last two quarters of 2006 reflects increased dividend income resulting from the purchase of 10.9 million additional Brookfield common shares in the third quarter of 2006 and an increase in Brookfield's dividend rate. Brookfield declares dividends in U.S. currency and, accordingly, the Canadian dollar equivalent received by the company fluctuates with changes in the currency exchange rate. Net income in the second quarter of 2006 includes a future tax recovery of $10.5 million.

Related Party Transactions

Brookfield provides management and administration services to the company. During 2006, the company paid $nil (2005 – $0.1 million) to Brookfield in respect of costs incurred on behalf of, and services provided to, the company. These services have been conducted on normal market terms. Cash and equivalents include funds on deposit with Brookfield, which bear interest at the prime rate and are available upon demand.

During 2006, the company acquired 10.9 million common shares of Brookfield from Partners Limited ("Partners") valued at $499 million in exchange for a $72 million promissory note and 2,507,973 common shares. The shares purchased have been recorded at $140.1 million, which represents the book value of the shares in the accounts of the vendor, and the common shares issued as consideration have been recorded at $56.5 million, representing the difference between the recorded amount of the purchased shares and the value of the promissory note net of the future tax liability.

Significant Accounting Policies

The company is an investment holding company incorporated under the laws of Ontario with a leveraged investment in Brookfield. In the ordinary course of business, the company carries on securities and financing transactions with Brookfield and its affiliates generally on normal market terms (see Note 10 to the Financial Statements). The consolidated financial statements include the accounts of the company's wholly-owned subsidiary, BAM Split Corp.

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.

The company accounts for its investment in Brookfield on the cost basis. Deferred financing costs relate to the issuance of retractable preferred shares of BAM Split and are amortized and charged against earnings over a period of five years. 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.

Future Accounting Policies

In 2005, the CICA issued new accounting standards: Handbook Section 1530, *Comprehensive Income*, and Handbook Section 3855, *Financial Instruments - Recognition and Measurement*. These new standards became effective for the company on January 1, 2007.

Comprehensive Income
Section 1530 introduces Comprehensive Income which represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources. Other comprehensive income (OCI) includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts net of hedging arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, Accumulated Other Comprehensive Income (AOCI), will be presented as a new category of Shareholders' Equity in the Consolidated Balance Sheets.

Financial Instruments - Recognition and Measurement
Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net income. Available for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instrument or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments will be recognized in net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliably measurable fair values.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Subsequent Events

In January 2007, the company and its subsidiary, BAM Split Corp. completed the following transactions:

- BAM Split issued $200 million of 4.35% preferred shares for net proceeds of approximately $193 million and used the proceeds to acquire 3,534,000 Brookfield common shares.
- BAM Investments issued $193 million of debentures exchangeable into 3,534,000 Brookfield common shares.
- BAM Investments repaid the $72 million promissory note together with accrued interest and repurchased its Series II preferred shares for $65 million.

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 cash flows and probabilities in assessing net recoverable amounts and net realizable values; tax and other provisions; and fair values for disclosure purposes.

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 Chief Executive Officer and the Chief Financial Officer of the company evaluated the effectiveness of the company's disclosure controls and procedures (as defined in "Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings") as at December 31, 2006 and have concluded that the disclosure controls and procedures are operating effectively.

Brian D. Lawson
President
March 22, 2007

Forward-Looking Statements
This annual report contains forward-looking statements concerning the company's business and operations. The company cautions that, by their nature, forward-looking statements involve risk and uncertainty and the company's actual results could differ materially from those expressed or implied in such statements. Reference should be made to the company's most recent Annual Information Form for a description of the major risk factors.

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 22, 2007

Auditors' Report

To the Shareholders of BAM Investments Corp.

We have audited the consolidated balance sheets of BAM Investments Corp. as at December 31, 2006 and 2005 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, 2006 and 2005 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
March 2, 2007

Deloitte & Touche LLP
Chartered Accountants

Consolidated Balance Sheets

As at December 31

$thousands	*Note*	**2006**	2005
Assets			
Cash and equivalents	*10*	**$ 3,880**	$ 4,425
Investment in Brookfield Asset Management Inc.	*3*	**415,952**	275,805
Accounts receivable and other		**2,972**	2,683
		$ 422,804	$ 282,913
Liabilities			
Accounts payable and provisions	*4*	**$ 2,049**	$ 1,974
Loans payable	*10*	**72,367**	—
Retractable preferred shares	*5*	**205,000**	205,000
		279,416	206,974
Shareholders' equity	*6*		
Preferred shares		**70,750**	70,750
Common shares		**85,031**	28,486
Deficit		**(12,393)**	(23,297)
		143,388	75,939
		$ 422,804	$ 282,913

On behalf of the Board

Frank N.C. Lochan
Director

Brian D. Lawson
Director

Consolidated Statements of Operations

For the years ended December 31

$thousands, except per share amounts	*Note*		**2006**		2005
Investment income	*7, 10*	**$**	**21,114**	$	12,693
Expenses					
Operating	*10*		**513**		534
Interest	*10*		**2,168**		—
Amortization of deferred financing costs			**1,286**		1,511
Retractable preferred share dividends			**11,773**		11,773
			15,740		13,818
Net income (loss) before taxes			**5,374**		(1,125)
Future tax asset recovery			**10,483**		—
Net income (loss)		**$**	**15,857**	$	(1,125)
Net income (loss) per common share	*9*	**$**	**1.34**	$	(1.48)

Consolidated Statements of Deficit

For the years ended December 31

$thousands	*Note*		**2006**		2005
Deficit, beginning of year		**$**	**(23,297)**	$	(17,203)
Net income (loss)			**15,857**		(1,125)
Preferred share dividends	*6*		**(4,953)**		(4,969)
Deficit, end of year		**$**	**(12,393)**	$	(23,297)

Consolidated Statements of Cash Flows

For the years ended December 31

$thousands		**2006**		2005
Cash flow from (used in) operating activities				
Net income (loss)	**$**	**15,857**	$	(1,125)
Add (deduct) non-cash items				
Amortization of deferred financing costs		**1,286**		1,511
Future tax asset recovery		**(10,483)**		—
Changes in working capital		**(1,897)**		(18)
		4,763		368
Cash flow used in financing activities				
Preferred share dividends paid		**(4,953)**		(4,969)
Common shares repurchased		**—**		(1,256)
Share issue costs		**(355)**		—
		(5,308)		(6,225)
Cash and equivalents				
Decrease		**(545)**		(5,857)
Balance, beginning of year		**4,425**		10,282
Balance, end of year	**$**	**3,880**	$	4,425

Notes To The Consolidated Financial Statements

1. Business Operations

BAM Investments Corp. (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, BAM Split Corp ("BAM 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 BAM 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's presentation.

3. Investment in Brookfield

As at December 31

$thousands	**2006**	2005
Brookfield Asset Management Inc.	**$ 415,952**	$ 275,805

The company owns 37.0 million (2005 – 26.1 million) Class A Limited Voting Shares of Brookfield representing a 9.1% (2005 – 6%) 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 10.9 million Brookfield common shares during 2006 for $499 million, which were recorded at the carrying amount of $140.1 million (see note 10). During 2006, the company received dividends of $21.0 million (2005 – $12.5 million) from Brookfield. The quoted market value of this investment at December 31, 2006 was $2,084.1 million (2005 – $1,020.9 million).

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

4. Accounts Payable and Provisions

$thousands		**2006**		2005
Accounts payable	**$**	**627**	$	552
Provisions		**1,422**		1,422
	$	**2,049**	$	1,974

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

5. Retractable Preferred Shares

$thousands	Issued		**2006**		2005
6.25% Class A	5,000,000 (2005 – 5,000,000)	**$**	**125,000**	$	125,000
4.95% Class AA, Series I	3,200,000 (2005 – 3,200,000)		**80,000**		80,000
		$	**205,000**	$	205,000

Retractable preferred shares issued by BAM 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 $0.375 per share and $0.30938 per share, respectively. The Class A Preferred 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, 2006 were $26.15 and $26.15 per share, respectively.

6. Shareholders' Equity

Authorized

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

Issued and outstanding

$thousands	Issued			**2006**		2005
Preferred shares Series II	1,965,384	(2005 – 1,965,384)	**$**	**65,000**	$	65,000
Preferred shares Series V	23	(2005 – 23)		**5,750**		5,750
Common shares	7,941,891	(2005 – 5,433,918)		**85,031**		28,486
Deficits				**(12,393)**		(23,297)
			$	**143,388**	$	75,939

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, 2006, the aggregate amount of cumulative unpaid preferred share dividends total $13.9 million (2005 – $12.0 million) and these have not been accrued in the financial statements. The Series II preferred shares were repurchased in January 2007 for $65 million (see note 12) thereby extinguishing the cumulative unpaid dividends.

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 2006, the company issued 2,507,973 common shares valued at $427.0 million as partial consideration for the acquisition of Brookfield Class A Limited Voting shares (see note 3). The common shares were recorded at $56.5 million (see note 10).

The company did not repurchase any common shares during 2006 through the facilities of the Toronto Stock Exchange under its normal course issuer bid. In 2005, 15,500 common shares were repurchased at an average price of $81.03.

7. Investment Income

$thousands		**2006**		2005
Brookfield Asset Management Inc. – dividends	**$**	**20,996**	$	12,545
Interest and other		**118**		148
	$	**21,114**	$	12,693

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

8. Income Taxes

$thousands		**2006**		2005
Statutory income tax rate		**33.74%**		36.0%
Tax payable (recovery) at effective rate	**$**	**1,813**	$	(405)
Increase (reductions) in income tax expense (recovery) resulting from:				
Dividends paid and received not subject to tax		**(3,112)**		(278)
Non-recognition of the benefit of current year's tax losses		**1,299**		683
Tax recovery recorded	**$**	**—**	$	—

The company has available non-capital losses of $32.9 million (2005 – $29.1 million). The non-capital losses expire in the period of 2007 to 2026 of which $29.6 million do not expire until 2011 or later. The tax bases of the company's common share investments exceed their accounting carrying values by $52.2 million (2005 – $120.4 million). No recognition has been given in these consolidated financial statements to the potential tax benefits of the losses or bases differences.

9. Net Income (Loss) per Common Share

The net income (loss) per common share is calculated after deducting preferred share dividend entitlements and is based on 6,687,904 (2005 – 5,442,093) 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 2006 and 2005 and recovered costs of $nil in 2006 (2005 – $0.1 million) in respect of those services. The following balances pertained to Brookfield and its controlled and significantly influenced companies as at December 31, 2006: cash and equivalents – $1.4 million, (2005 – $3.7 million); and investment income – $21.1 million (2005 – $12.7 million). These transactions have been recorded at their exchange values.

During 2006, the company acquired 10.9 million Class A Limited Voting Shares of Brookfield from Partners Limited ("Partners") valued at $499 million in exchange for a $72 million promissory note and 2,507,973 common shares. The shares purchased have been recorded at $140 million which represents the book value of the shares in the accounts of the vendor and the common shares issued as consideration have been recorded at $56.5 million, representing the difference between the recorded amount of the purchased shares and the value of the promissory note consideration paid, net of the future tax liability. Partners owned 25% of the company's common shares prior to the transaction and 49% of the common shares following the transaction.

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.

12. Subsequent Events

On December 20, 2006, the company signed an agreement to enter into a private placement of $193.2 million principal amount of 25-year debentures due January 2032 exchangeable into 3,534,000 Class A Limited Voting Shares of Brookfield Asset Management Inc. As security for the debentures, the company pledged 3,534,000 Class A Limited Voting Shares of Brookfield to the holders of the debentures. This transaction closed on January 10, 2007.

The proceeds of this offering were used to repay the $72 million promissory note accrued, together with accrued interest and to repurchase the Series II preferred shares for $65 million plus dividends to the date of repurchase at a rate of 7% per annum.

Also on December 20, 2006, in a separate transaction, BAM Split Corp., a subsidiary of the company, signed an agreement to issue 8,000,000 Class AA preferred shares, Series 3 to a syndicate of underwriters for proceeds (net of issue costs) of approximately $193 million. The net proceeds were used to acquire 3,534,000 Class A Limited Voting Shares of Brookfield. These transactions closed on January 10, 2007.

Corporate Information

Directors

James C. Bacon
Corporate Director
(Director - elect)

Howard Driman[1]
Director of Finance
UIA Federations Canada

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

R. Frank Lewarne[1]
Corporate Director

Frank N.C. Lochan
Corporate Director

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

(1) Member of the Audit Committee

Officers

Frank N.C. Lochan
Chairman

Brian D. Lawson
President

Sachin G. Shah
Vice President Finance

Loretta M. Corso
Corporate Secretary

Corporate Office

BCE Place – 181 Bay Street
Suite 300, P.O. Box 762
Toronto, Ontario M5J 2T3
Telephone: (416) 359-8620
Facsimile: (416) 365-9642

Registrar and Transfer Agent

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
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

Toronto Stock Exchange

Stock Symbol: BNB

BAM INVESTMENTS CORP.

BCE Place – 181 Bay Street
Suite 300, P.O. Box 762
Toronto, Ontario
M5J 2T3