BAM SPLIT CORP

# 2007 Annual Report

# Contents



*This report contains "forward-looking statements". The words "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements 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 achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include general economic conditions, interest rates, availability of equity and debt financing and other risks detailed from time-to-time in the company's continuous disclosure documents. The company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

# Management’s Report on Fund Performance

The following is a report on the performance of BAM Split Corp. ("the company") and contains financial highlights but does not contain the complete financial statements of the company. This report should be read in conjunction with the financial statements and notes thereto for the year ended September 30, 2007.

This report follows the disclosure obligations under National Instrument 81-106 Investment Fund Continuous Disclosure (“NI-81-106” or the “Instrument”). The Instrument came into force on June 1, 2005.

You can recieve a copy of the company's annual financial statements at your request and at no cost by calling (416) 363-9491, by writing to us at 181 Bay Street, Brookfield Place, Suite 300, P.O. Box 762, Toronto, Ontario M5J 2T3 or by visiting SEDAR at *www.sedar.com*. Security holders may also contact us using one of these methods to request a copy of the company’s proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure when that information becomes available.

## INVESTMENT OBJECTIVE AND STRATEGIES

The company commenced operations on September 5, 2001 with the objective of investing in Class A Limited Voting shares of Brookfield Asset Management Inc. (“Brookfield”) that would generate cash dividends to fund fixed preferential cumulative quarterly dividends for the holders of the company’s preferred shares and to enable the holders of the company’s capital shares to participate in any capital appreciation in the Brookfield shares.

## RISKS

The following are risk factors relating to an investment in the company:

**Interest Rate Fluctuations**
The market value of a unit may, at any given time, be affected by the level of interest rates prevailing at such time. An increase (decrease) in interest rates will, on its own, likely reduce (increase) the value of a preferred share, given that the dividends on such preferred shares are fixed rate and, the value of the company’s units. The company's capital shares and preferred shares are also referred to collectively as units, with each unit consisting of one capital share and one preferred share.

**Fluctuations in Value of Brookfield Shares**
The value of a unit will vary according to the value of the Brookfield shares. The value of the investment may be influenced by factors not within the control of the company, including: financial performance of the Brookfield shares which may result in a decline in value of the investment portfolio and/or in dividend income from the investment; interest rates and other financial market conditions.

**Foreign Currency Exchange Flucuations**

Brookfields functional currency is the United States dollar and declares dividends in that currency. Accordingly, changes in the exchange rate between the Canadian and United States currencies may impact the value of the company's investment portfolio and cashflows relative to its financial obligations which are denominated principally in the Canadian currency.

## RESULTS OF OPERATIONS

Total assets at September 30, 2007 were $1,715.5 million, compared to $1,311.9 million at September 30, 2006. The increase in assets reflects an increase in unrealized gains within the portfolio of $212.1 million and the acquisition of an additional 5.3 million Brookfield shares. The fair value of the company's investment portfolio at September 30, 2007 was $1,714.0 million (September 30, 2006 – $1,308.7 million).

As at September 30, 2007, the net asset value of the company was $1,281.7 million, an increase of 19.8% from the value of $1,069.8 million at September 30, 2006. Net asset value is calculated by the differential between total assets and total liabilities. On a per unit basis, the net asset value was $97.74 as compared to $137.04 as at September 30, 2006, representing a decrease of 28.7%. This reflects the dilution per unit from the subdivision of the Capital shares caused by the issuance of 8.0 million Class AA Series 3 Preferred Shares offset by the appreciation in the market value of the Brookfield shares.

The company generated income available for distribution for the year ended September 30, 2007 of $19.6 million, an increase from $14.7 million for the same period in the prior year, as a result of the acquisition of additional Brookfield shares and an increase in the dividends received on the Brookfield shares.

During the year, the company paid dividends of $17.3 million and $3.9 million to Preferred and Capital shareholders, respectively, compared to $11.8 million and $3.2 million for the same period in the prior year. The increase in dividends paid is due to the issue of additional preference shares as described below.

The company issued 8.0 million Series 3 Preferred Shares during the year ended September 30, 2007 for $194.7 million, net of associated transaction costs, which gave rise to the increase in Preferred share liabilities since September 30, 2006. Holders of Preferred Shares redeemed 1,000 Class AA Series 1 Preferred Shares, (the "Series 1 Preferred Shares") during the period ended September 30, 2007. As a result, the company redeemed an equal amount of Capital Shares, at that point in time. Shareholders' equity increased to $1,281.7 million at September 30, 2007 from $1,069.8 million at September 30, 2006 due primarily to unrealized gains on the Brookfield shares.

The company reclassified $1.5 million of transaction costs from Shareholders' equity to Preferred share liabilities as a transition adjustment under the new Financial Instruments accounting rules which came into effect October 1, 2006. The remaining transaction costs are amortized into income available for distribution using the effective interest method of amortization, over the life of the underlying financial instrument.

## RELATED PARTY TRANSACTIONS

The company's operations are managed by Brookfield, which is entitled to a fee of up to 10% of ordinary expenses of the company. For the year ended September 30, 2007, Brookfield charged a fee of $20,000 (2006 – $20,000).

## FINANCIAL HIGHLIGHTS

The following table shows selected key financial information about the company and is intended to facilitate an understanding of the company's financial performance since inception and is presented in accordance with NI-81-106. This information is derived from the company's audited financial statements.

| For the years ended September 30 | **2007** | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Net asset value per unit, beginning of year | **$ 137.04** | $ 100.11 | $ 70.72 | $ 65.76 | $ 61.03 |
| Financial instruments transition adjustment[1] | **(0.10)** | — | — | — | — |
| Share issuance proceeds | **13.05** | — | — | 15.38 | — |
| Share issuance costs | **(0.35)** | — | — | (0.41) | — |
| Net asset value dilution[2] | **(65.64)** | — | — | (41.90) | — |
| Increase (decrease) from operations: | | | | | |
| Total revenue | **1.45** | 1.64 | 1.33 | 1.54 | 1.95 |
| Total expenses | **(0.17)** | (0.09) | (0.02) | (0.05) | (0.03) |
| Unrealized gains for the year | **13.84** | 36.96 | 29.39 | 32.01 | 4.67 |
| Total increase from operations[3] | **15.12** | 38.51 | 30.70 | 33.50 | 6.59 |
| Distributions: | | | | | |
| From interest and dividends | **(1.38)** | (1.57) | (1.31) | (1.61) | (1.86) |
| Total annual distributions | **(1.38)** | (1.57) | (1.31) | (1.61) | (1.86) |
| Net asset value per unit, end of year | **$ 97.74** | $ 137.04 | $ 100.11 | $ 70.72 | $ 65.76 |

1 Refer to Note 2 to the Financial Statements for impact of new accounting policies related to financial instruments.
2 Dilution occured as a result of the subdivision of Capital shares following the issuance of Preferred shares during 2004 and 2007 so that the number of Capital shares issued and outstanding was equal to the number of Preferred shares issued and outstanding as required by the articles of the company. There was no dilution to holders of existing Preferred shares.
3 Net asset value and distributions are based on the actual number of units outstanding over the period. The increase from operations is based on the weighted average number of units outstanding over the period.

| | As at and for the years ended September 30 | | | | |
|---|---|---|---|---|---|
| *thousands, except per share/unit amounts* | **2007** | 2006 | 2005 | 2004 | 2003 |
| Total assets | **$1,715,530** | $1,311,924 | $ 955,921 | $ 675,250 | $328,813 |
| Net asset value | **1,281,730** | 1,069,785 | 717,145 | 436,495 | 203,793 |
| Number of units outstanding | **17,547** | 9,548 | 9,548 | 9,548 | 5,000 |
| Management expense ratio (excluding dividends on preferred shares and issue costs) | **0.2%** | 0.1% | — | 0.1% | 0.1% |
| Management expense ratio (including dividends on preferred shares and issue costs) | **1.6%** | 1.4% | 1.7% | 3.0% | 3.9% |
| Portfolio turnover rate[1] | **N/A** | N/A | N/A | N/A | N/A |
| Redemption price of Preferred shares Class A | | | | | |
| Class A[2] | **$ 25.75** | $ 26.00 | $ 26.25 | $ 26.50 | $ 26.50 |
| Class AA Series I[3] | **N/A** | N/A | N/A | N/A | N/A |
| Class AA Series III[4] | **N/A** | N/A | N/A | N/A | N/A |

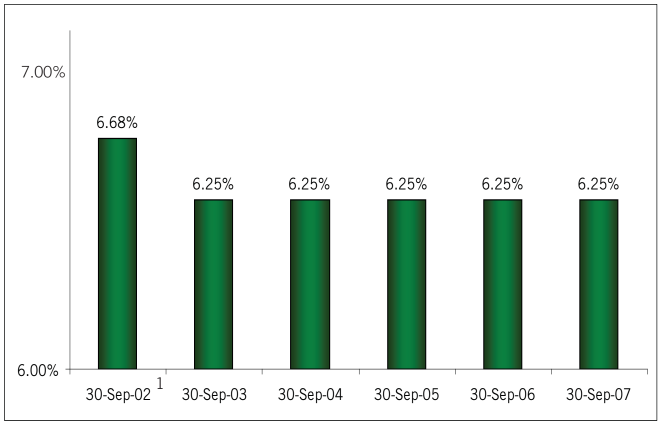
1 The company has not sold any securities within its investment porfolio since inception.
2 The company amended the mandatory redemption date and redemption price on August 21, 2003.
3 Redemption period commences on March 25, 2009.
4 Redemption period commences on January 10, 2012.
5 Class A and Class AA Series 1 and 3 Preferred Shares may be surrendered for retraction at any time.

## PAST PERFORMANCE

### Year by Year Returns

The following charts show the company’s annual performance of its Class A Preferred Shares, Class AA Series 1 Preferred Shares and Class AA Series 3 Preferred shares since their issuance indicating, in percentage terms, that an investment made in these shares at issuance would yield 6.25%, 4.95% and 3.13%, respectively, assuming the shares are sold at redemption price. The yield for the Class AA Series 3 Preferred Shares represents a partial year, and represents an annualized yield at 4.35%. The charts are not reflective of the current yield to maturity and past performance is not an indication of how the shares will perform in the future.

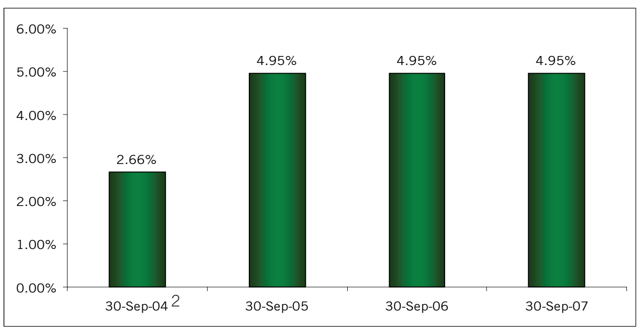
### Annual Performance – Class A Preferred shares




[1] Reflects the period September 5, 2001 to September 30, 2002.

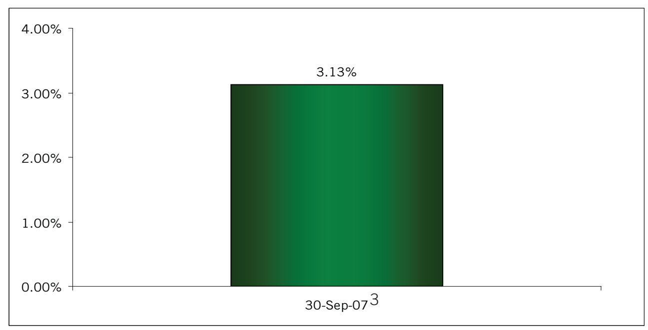
### Annual Performance – Class AA Preferred shares

**Series 1**




[2] Reflects the period March 18, 2004 to September 30, 2004.

**Series 3**




[3] Reflects the period January 10, 2007 to September 30, 2007

### Annual Compound Returns

The following table compares the yield on issuance of the company's preferred shares against the yield provided by a Government of Canada bond that matures during a similar period. Returns are based on the par value of a preferred share.

| | Since Inception | Three-Year | One-Year |
|---|---|---|---|
| Preferred Shares Class A – September 30, 2010 | 6.25% | 6.25% | 6.25% |
| 10-year Government of Canada Bonds – June 1, 2010 | 5.50% | 5.50% | 5.50% |
| Preferred Shares Class AA Series 1– March 25, 2016 | 4.95% | 4.95% | 4.95% |
| 10-year Government of Canada Bonds – June 1, 2015 | 4.50% | 4.50% | 4.50% |
| Preferred Shares Class AA Series 3 - January 10, 2019[1] | 3.13% | N/A | N/A |
| 10-Year Government of Canada Bonds - June 1, 2018[1] | 3.06% | N/A | N/A |

[1] Reflects the period January 10, 2007 to September 30, 2007.

### Investment Portfolio

The investment in the Brookfield shares, the associated costs and the fair values as at September 30, 2007 and 2006 are as follows:

| | Number of Shares[1] | | Cost | | Fair Value | |
|---|---|---|---|---|---|---|
| *thousands* | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Brookfield Class A Limited Voting shares | **45,023** | 39,722 | **$ 548,068** | $ 354,829 | **$ 1,714,024** | $ 1,308,706 |

[1] Reflects three-for-two stock split of Brookfield shares in 2007.

## Management's Responsibility for the Financial Statements

The accompanying financial statements and other financial information in this Annual Report have been prepared by the company's management who is responsible for their integrity, consistency, objectivity and reliability. 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 to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance and the communication of policies and code of conduct throughout the company. These financial statements have been prepared in conformity with Canadian generally accepted accounting principles, 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 financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders, have examined the financial statements set out on pages 6 through 13 in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the financial statements. Their report is set out below.

The financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of directors who are not officers or employees of the company. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.

"signed"

Toronto, Canada
December 13, 2007

Brian D. Lawson
Chairman

## Auditors' Report

**To the Shareholders of BAM Split Corp.**

We have audited the statements of net assets of BAM Split Corp. as at September 30, 2007 and 2006, and the statements of investment operations and retained earnings, changes in net assets 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 financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2007 and 2006 and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Toronto, Ontario
December 13, 2007

Chartered Accountants
Licensed Public Accountants

# Statements of Net Assets

As at September 30

| *thousands, except per share/unit amounts* | Note | **2007** | 2006 |
|---|---|---|---|
| **Assets** | | | |
| Cash | | **$ 6** | $ 210 |
| Investment portfolio, at fair market value | 2,3 | **1,714,024** | 1,308,706 |
| Future tax asset | | **1,479** | 2,986 |
| Accounts receivable | | **21** | 22 |
| | | **1,715,530** | 1,311,924 |
| **Liabilities** | | | |
| Accounts payable | | **587** | 2,000 |
| Taxes payable | 7 | **—** | 1,439 |
| Preferred shares | 2,5 | **433,213** | 238,700 |
| Total liabilities | | **433,800** | 242,139 |
| **Net asset value** | | **$ 1,281,730** | $ 1,069,785 |
| | | | |
| **Shareholders' equity** | | | |
| Capital shares | 6 | **$ 123,937** | $ 123,950 |
| Retained earnings | | **1,157,793** | 945,835 |
| | | **$ 1,281,730** | $ 1,069,785 |
| | | | |
| Number of units outstanding | 5 | **17,547** | 9,548 |
| Net asset value per capital share[1] | | **$ 73.05** | $ 60.97 |
| Book value per preferred share | | **24.69** | 25.00 |
| Net asset value per unit | 4 | **$ 97.74** | $ 137.04 |

[1] Prior year adjusted to reflect January 10, 2007 Capital share split.

On behalf of the Board,

"signed"

Bruce K. Robertson
*Director*

"signed"

Brian D. Lawson
*Director*

## Statements of Investment Operations and Retained Earnings

For the years ended September 30

| *thousands, except per share amounts* | | **2007** | | 2006 |
|---|---|---|---|---|
| **Income** | | | | |
| Dividend income | $ | **22,144** | $ | 15,621 |
| Interest income | | **10** | | 12 |
| | | **22,154** | | 15,633 |
| **Expenses** | | | | |
| Amortizaton of share issuance costs[1] | | **1,396** | | — |
| Legal and audit fees | | **113** | | 37 |
| Listing fees | | **32** | | 26 |
| Management fees | | **20** | | 20 |
| Administrative fees | | **46** | | 43 |
| Directors fees | | **26** | | 28 |
| Custodial fees | | **9** | | 10 |
| Transfer agent fees | | **18** | | 17 |
| Interest and penalties relating to taxes | | **922** | | 700 |
| Rating fees | | **5** | | 5 |
| Other | | **13** | | 18 |
| | | **2,600** | | 904 |
| Income available for distribution | | **19,554** | | 14,729 |
| Dividends paid on Preferred shares | | **(17,290)** | | (11,773) |
| Income available for distribution on Capital and Preference shares | | **2,264** | | 2,956 |
| Change in unrealized appreciation on investment | | **212,079** | | 352,908 |
| **Results of investment operations** | **$** | **214,343** | $ | 355,864 |
| | | | | |
| **Opening retained earnings** | **$** | **945,835** | $ | 593,195 |
| Results of investment operations | | **214,343** | | 355,864 |
| Dividends paid on Capital shares | | **(3,916)** | | (3,224) |
| Transition adjustment - October 1, 2006[1] | | **1,532** | | — |
| **Retained earnings, end of year** | **$** | **1,157,794** | $ | 945,835 |
| **Results of investment operations per Capital share**[2,3] | **$** | **13.99** | $ | 23.22 |

1 Refer to Note 2 for impact of new accounting policies related to financial instruments.
2 Based on weighted average number of Capital shares outstanding. See Note 9.
3 Prior year adjusted to reflect January 10, 2007 Capital share split.

# Statements of Changes in Net Assets

| For the years ended September 30<br>*thousands* | **2007** | 2006 |
|---|---|---|
| **Investment transactions** | | |
| Change in unrealized appreciation of investment portfolio | **$ 212,079** | $ 352,908 |
| **Income transactions** | | |
| Income available for distribution | **19,554** | 14,729 |
| Dividends paid on preferred shares | **(17,290)** | (11,773) |
| | **2,264** | 2,956 |
| **Capital transactions** | | |
| Dividends paid on capital shares | **(3,916)** | (3,224) |
| Capital share redemptions | **(13)** | — |
| | **(3,929)** | (3,224) |
| **Change in net asset value during the year** | **210,414** | 352,640 |
| **Net asset value, beginning of year** | **1,069,785** | 717,145 |
| **Transition adjustment - October 1, 2006**[1] | **1,532** | — |
| **Net asset value, end of year** | **$ 1,281,731** | $ 1,069,785 |

1 Refer to Note 2 for impact of new accounting policies related to financial instruments.

# Statements of Cash Flows

For the years ended September 30

| *thousands* | | 2007 | | 2006 |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Income available for distribution | $ | **19,554** | $ | 14,729 |
| Add (deduct) non-cash items: | | | | |
| Amortization of share issuance costs | | **1,396** | | — |
| Net change in non-cash working capital | | **(1,333)** | | 376 |
| | | **19,617** | | 15,105 |
| **Cash flow used in investing activities** | | | | |
| Purchase of investments | | **(193,239)** | | — |
| **Cash flow used in financing activities** | | | | |
| Preferred share dividends | | **(17,290)** | | (11,773) |
| Capital share dividends | | **(3,916)** | | (3,224) |
| Preferred shares issued, net of retractions | | **199,975** | | — |
| Capital shares redeemed | | **(13)** | | — |
| Share issue costs on preferred share issuance | | **(5,338)** | | — |
| | | **173,418** | | (14,997) |
| (Decrease) increase in cash and equivalents | | **(204)** | | 108 |
| Cash balance, beginning of year | | **210** | | 102 |
| **Cash and equivalents, balance, end of year** | $ | **6** | $ | 210 |

| | | | | |
|---|---|---|---|---|
| **Supplemental disclosures** | | | | |
| Cash income taxes paid | $ | **—** | $ | 2,247 |

# Notes to the Financial Statements

**1. Basis of Presentation**

The company's portfolio of Class A Limited Voting shares ("Brookfield shares" or the "portfolio") of Brookfield Asset Management Inc. ("Brookfield") is carried at fair market value, which is the bid price on a recognized exchange, with any adjustment required being recorded as an unrealized appreciation (depreciation) on the Statements of Investment Operations and Retained Earnings.

Cash includes any instruments with a maturity of less than 90 days.

Dividend income is recorded on the ex-dividend date.

**Guarantees**

In the normal course of operations, the company may execute agreements that provide for indemnification and guarantees to third parties. 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 significant payments under such indemnification agreements and guarantees.

**2. Changes in Accounting Policies**

Effective October 1, 2006, the company adopted the new accounting standard, Handbook Section 3855 (Section 3855), 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 the company becomes 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, other liabilities or is an investment held by an investment company that is accounted for at fair value. Transaction costs related to trading financial assets or liabilities are expensed as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method.

*Impact of adopting Section 3855*

The company recorded a transition adjustment effective October 1, 2006 to reclassify $1.5 million of transaction costs from Shareholders' equity to Preferred share liabilities. There was no impact on the adoption of the financial instruments accounting standards as a result of the change from using the last traded price to the bid price on a recognized exchange in calculating the fair market value of the investment portfolio.

**3. Investment Portfolio**

The company accounts for its investment in Brookfield at fair market value, which is considered for their purposes to be the bid price on a recognized exchange, with any adjustments required being recorded as an unrealized appreciation (depreciation) in the Statements of Investment Operations and Retained Earnings. On January 10, 2007, the company acquired 5.3 million Brookfield shares for consideration of $193.2 million.

The investment in the Brookfield shares, the associated cost amounts and the fair values as at September 30 are as follows:

| | Number of Shares[1] | | Cost | | Fair Value | |
|---|---|---|---|---|---|---|
| *thousands* | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Brookfield Class A Limited Voting shares | **45,023** | 39,722 | **$ 548,068** | $ 354,829 | **$ 1,714,024** | $ 1,308,706 |

[1] Reflects three-for-two stock split of Brookfield shares in 2007.

**4. Class A Shares**

The company is authorized to issue an unlimited number of Class A Voting shares (the "Class A shares"). There are 100 Class A shares issued for nominal cash consideration, outstanding as at September 30, 2007. No Class A shares issued are redeemed during either 2007 or 2006.

Holders of the Class A shares are entitled to receive dividends, if, as and when declared by the Board of Directors of the company. However, holders of the Class A shares are not entitled to receive any dividends on the Class A shares at any time when there are any Capital shares or Preferred shares issued and outstanding.

Holders of Class A shares will be entitled to vote their pro rata share of the Brookfield shares held by the company. The company will appoint the holders of Class A shares as proxies. In the event that Brookfield does not provide its annual report and proxy materials relating to any meeting of Brookfield shareholders to the holders of the Class A shares, the company shall do so.

The Class A shares of the company are retractable at any time. For retractions occurring at a time when any Capital shares or Preferred shares are outstanding, the retraction price will be $1.00 per share; for other retractions, the retraction price will be based on the net asset value of the company. The Class A shares are redeemable by the company at any time for a redemption price equal to $1.00 per share. The Class A shares are included in liabilities on the Statements of Net Assets.

**5. Preferred Shares**

The company is authorized to issue an unlimited number of Class A Preferred shares and Class AA Preferred shares. On September 5, 2001, the company issued 5,000,000 Class A Preferred shares for cash consideration of $125 million. On March 18, 2004, the company issued 3,200,000 Class AA Preferred shares, Series 1, for cash consideration of $80 million through a public issue and 1,348,000 Class AA Preferred shares, Series 2, for consideration of $33.7 million through a private placement. On January 10, 2007 the company issued 8,000,000 Class AA Preferred shares, Series 3 for cash consideration of $200 million. During the year, 1,000 Class AA Series 1 Preferred Shares were retracted.

On August 21, 2003 the company's shareholders approved amendments to the articles of incorporation to extend the mandatory redemption date of the Class A Preferred shares to September 30, 2010 (the "Redemption Date") and to increase the redemption price to amounts described under Redemption, below, and to create and allow for the issuance of an additional class of Preferred shares. The Class AA Preferred shares are issuable in series and rank pari passu with existing Class A Preferred shares. The Board of Directors of the company has 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 a redemption of outstanding Preferred shares without necessitating the sale of Brookfield shares or the acquisition of additional Brookfield shares.

Holders of Class A Preferred shares and Class AA Preferred shares, Series 1 and Class AA Preferred shares, Series 3 are entitled to receive cumulative quarterly dividends of $0.390625, $0.309375 and $0.271875 per share respectively, payable on the 7th day of March, June, September and December in each year.

Class A and Class AA Series 1 Preferred shares may be surrendered for retraction at any time. The Class A and Class AA Series 1 Preferred share Retraction Price will be equal to the lesser of (i) 95% of Net Asset Value per Unit; and (ii) $25.00 less 5% of the Net Asset Value per Unit, in either case less $1.00.

Class AA Series 2 Preferred shares may be surrendered for retraction at any time. The Class AA Series 2 Preferred Share Retraction price will be equal to the lesser of (i) 95% of Net Asset Value per Unit loss $1.00; and (ii) $24.00

Class AA Series 3 Preferred Shares may be surrendered for retraction at any time. The Class AA Series 3 Retraction Price will be equal to the lesser of (i) Net Asset Value per Unit (ii) $25.00. Retraction Consideration will be a number of Series 1 Debentures determined by the 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 recieve 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 1 Debentures shall be redeemable by the Company at any time. The Series 1 debentures may not be retracted.

The "Net Asset Value per Unit" is defined as the fair value of the Portfolio shares held by the company plus (minus) the amount by which the value of the other assets of the company exceed (are less than) the liabilities (including any extraordinary liabilities) of the company 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 A and Class AA Series 1 and 3 Preferred shares will not be treated as liabilities for purposes of determining Net Asset Value per Unit.

**Redemption**

The Class A Preferred shares issued, outstanding and as amended may be redeemed by the company at any time prior to the Redemption Date at a price (the "Class A Preferred share Redemption Price") which, at September 30, 2007, equals $25.75 and which will decline by $0.25 each year to be equal to $25.00 after September 30, 2009. Any Class A Preferred shares outstanding on the Redemption Date, will be redeemed for the lesser of $25.00 plus any accrued and unpaid dividends and the Net Asset Value per Unit.

The company will only redeem Class A Preferred shares prior to the Redemption Date if the Capital shares have been retracted, if there is a take-over bid for the Brookfield shares and the Board of Directors determines that such bid is in the best interest of the holders of the Capital shares, or if a further issue of Preferred shares is completed; the proceeds from which would be used to redeem outstanding Preferred shares.

The Class AA Series 1 Preferred shares may be redeemed by the company at any time after March 25, 2009 and prior to the redemption date for the Class AA Series 1 Preferred shares at a price which until March 25, 2013 will equal $26.00 per share plus accrued and unpaid dividends and which will decline by $0.25 each year thereafter to be equal to $25.00 on March 25, 2016 (the "Class AA Series 1 Redemption Date"). All Class AA Series 1 Preferred shares outstanding on the Class AA Series 1 Redemption Date will be redeemed for a cash amount equal to the lesser of $25.00 plus any accrued and unpaid dividends and the Net Asset Value per Unit. Notwithstanding the first sentence of this paragraph, the company may redeem Class AA Series 1 Preferred shares prior to March 25, 2009 for $26.00 per share plus accrued and unpaid dividends if, and will not redeem Class AA Series 1 Preferred shares prior to the Class AA Series 1 Redemption Date unless: (i) Capital shares have been retracted; or (ii) there is a take-over bid for the Brookfield shares and the Board of Directors of the company determines that such bid is in the best interest of the holders of the Capital shares. In addition, the company may redeem Class AA Series 1 Preferred shares after March 25, 2009 but prior to the Class AA Redemption Date if the redemption of the then outstanding Class AA Series 1 Preferred shares will occur using net proceeds from the issuance of Class AA Series 1 or other class of preferred shares.

Holders of the Preferred shares are not entitled to vote at meetings of shareholders of the company other than meetings of holders of the Preferred shares.

Class AA Series 2 Preferred shares may be redeemed by the Company at anytime at a price equal to the lesser of (i) $25.00; and (ii) Net Asset Value per Unit on the Redemption Date.

Class AA Series 3 Preferred Shares may be redeemed by the Company at any time on or after January 10, 2012 and prior to January 10, 2019 (the "Series 3 Redemption Date"). All Class AA Series 3 Preferred Shares outstanding on the Class AA Series 3 Redemption Date will be redeemed for a cash amount equal to the lesser of $25.00 plus any accrued and unpaid dividends, and the Net Asset Value per Unit. Notwithstanding the first sentence of this paragraph, the Company may redeem Class AA Series 3 Preferred Shares prior to January 10, 2012 for $26.00 per share plus accrued and unpaid dividends if, and will not redeem Class AA Series 3 Preferred Shares prior to the Series 3 Redemption Date unless: (i) Capital Shares have been retracted; or (ii) there is a take-over bid for the Brookfield Shares and board of directors of the Company determines that such a bid is in the best interest of the holders of the Capital Shares. In addition, the Company may redeem Class AA Series 3 Preferred Shares on or after January 10, 2012 but prior to the Class AA Series 3 Redemption Date if the redemption of the then outstanding Class AA Series 3 Preferred Shares will occur using net proceeds form the issuance of a new series or class of preferred shares.

**6. Capital Shares**

The company is authorized to issue an unlimited number of Capital shares and on September 5, 2001, issued 5,000,000 Capital shares for cash consideration of $40,690,000 and 3,330,400 Brookfield shares. On March 25, 2004 the company's Capital shares were subdivided to reflect the issuance of 3,200,000 Class AA, Series 1 Preferred shares and 1,348,000 Class AA, Series 2 Preferred shares. On January 10, 2007 the company's Capital shares were subdivided to reflect the issuance of 8,000,000 Class AA, Series 3 Preferred Shares. As a result, of the 1,000 Class AA, Series 1 Preferred Shares being retracted during the year, the company redeemed an equal number of Capital Shares. Accordingly at September 30, 2007 there are 17,547,000 Capital shares outstanding.

Holders of Capital shares are entitled to receive dividends as declared by the Board of Directors of the company. The Board of Directors of the company has indicated that its policy is to pay dividends, if and to the extent that the dividends received on the Portfolio shares, less the administrative and operating expenses of the company, exceed the Preferred share dividends. During 2007, the company declared and paid dividends in the amount of $3.9 million (2006 – $3.2 million) to its Capital shareholders.

If the company undertakes any future issuance of Preferred shares, the articles of the company will be amended to either subdivide or consolidate, as applicable, such that the number of Capital shares outstanding after such subdivision or consolidation would be equal to the number of Preferred shares of all classes or series outstanding immediately after such issuance.

Capital shares may be surrendered for retraction at any time upon delivery of a retraction notice. The Capital share Retraction Price is equal to the amount by which 95% of the Net Asset Value per Unit calculated as at the applicable Valuation Date, less $1.00, exceeds the Preferred share Redemption Price on such date.

If any Capital shares are retracted, the company will, as necessary and subject to applicable laws, redeem or purchase for cancellation in the open market Preferred shares in order to ensure that the number of preferred shares or any classes or series outstanding equals the number of Capital shares outstanding.

Capital shares may be redeemed by the company at any time at a price equal to the amount, if any, by which the Net Asset Value per Unit exceeds the Preferred Share Redemption Price of all outstanding classes and series.

Holders of the Capital shares are not entitled to vote at meetings of shareholders of the company other than meetings of holders of the Capital shares.

## 7. Income Taxes

The company qualifies and intends to continue to qualify as a mutual fund corporation under the Income Tax Act (Canada) (the "Act"), and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances.

The company's dividend income is not subject to income taxes under Part I of the Act; consequently, the company has no effective taxable income. However, the company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received. This tax is fully refundable upon payment of sufficient dividends.

As the company has the intention and ability to qualify as a mutual fund corporation to manage its affairs in such a way as to transfer any liability to its shareholders, no provision for income tax has been made.

The company recorded a $1.5 million (2006 – 3.0 million) future tax asset and utilized $4.5 million non-capital losses carried forward, to which no value had previously been ascribed, to partially offset the payment of a Part IV tax liability relating to the 2002 taxation year as this tax is refundable through dividend declarations.

The company has $3.7 million (2006 – $6.1 million) non-capital losses which expire in 2009, 2010, 2014, 2015, 2026 and 2027 and $4.3 million (2006 – $1.5 million) of undeducted share issue expenses available to offset taxable income, if any, in future years. The benefit of these losses and undeducted share issue expenses have not been recorded in these financial statements. The carrying value of the company's investment in Brookfield shares exceeds its tax value by $1,237 million (2006 – $1,025 million).

## 8. Management Fees

The company's operations are managed by Brookfield, which is entitled to a fee of up to 10% of ordinary expenses of the company. For the year ended September 30, 2007, the company paid management fees of $20,000 (2006 – $20,000).

## 9. Other

The company has a $4.0 million credit facility with Brookfield Investment Corp. This facility is due on demand with interest at the prime rate. As at September 30, 2007 there was $nil (2006 – $nil) outstanding under this facility.

Included in Accounts Payable is $0.4 million (2006 – $2.0 million) due to a related party.

The weighted average number of Capital shares/units outstanding during the year was 15.3 million.

# Corporate Information

**OFFICERS AND DIRECTORS**

**Brian D. Lawson**
*Director and Chairman*

**Bruce K. Robertson**
*Director, President and Chief Executive Officer*

**John P. Barratt**[1] [2]
*Director*

**James L.R. Kelly**[1] [2]
*Director*

**R. Frank Lewarne**[1]
*Director*

**Derek E. Gorgi**
*Director and Chief Financial Officer*

**Loretta M. Corso**
*Corporate Secretary*

(1) Member of the Audit Committee
(2) Member of the Independent Review Committee

**AUDITORS**
Deloitte & Touche LLP
Chartered Accountants

**LEGAL COUNSEL**
Torys LLP

**STOCK EXCHANGE LISTING**
The company's Preferred shares are listed on the Toronto Stock Exchange under the following symbols:

| *Security* | *Symbol* |
|---|---|
| Class A Preferred Shares | **BNA.PR.A** |
| Class AA Preferred Shares, Series 1 | **BNA.PR.B** |
| Class AA Preferred Shares, Series 3 | **BNA.PR.C** |

**YEAR END**
September 30

# Enquiries

Enquiries relating to the operations of the company should be directed to the company's Head Office:

**BAM Split Corp.**
Brookfield Place, 181 Bay Street
Suite 300, P.O. Box 770
Toronto, Ontario
M5J 2T3

Tel: (416) 363-9491
Fax: (416) 365-9642
Website: *www.bamsplit.com*

Enquiries relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent:

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

Tel: (416) 643-5500 or
(800) 387-0825
(toll free within North America)
Fax: (416) 643-5501
Website: *www.cibcmellon.com*
E-mail: *inquiries@cibcmellon.com*

BAM SPLIT CORP

**BAM Split Corp.**
Brookfield Place, 181 Bay Street
Suite 300, P.O. Box 770
Toronto, Ontario M5J 2T3