

## Management's Discussion and Analysis

### Overview

During the three months ended June 30, 2006, BNN Split Corp. (the "company") generated income available for distribution of \$4.6 million, compared with \$3.0 million during the same period last year. Investment income for this period increased to \$4.7 million compared to \$3.0 million in 2005 due to increased dividends per share on Brookfield Asset Management Inc. Class A Limited Voting shares. Operating expenses remained consistent at \$0.1 million quarter over quarter. For the quarter ended June 30, 2006, the company paid dividends of \$2.9 million and \$1.5 million to its Preferred and Capital shareholders respectively, compared with \$2.9 million and \$0.1 million for the same period in 2005.

The information in this section should be read in conjunction with the company's most recent annual report. Additional information is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

### Investment in Brookfield Asset Management Inc. ("Brookfield") Shares

As at June 30, 2006 BNN Split Corp. owns a portfolio consisting of 26,481,300 Class A Limited Voting shares of Brookfield in order to generate quarterly fixed cumulative preferential 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 excess distributions paid after preferred shareholders' dividends and any capital appreciation of Brookfield shares.

On April 4, 2006, Brookfield announced a three-for-two stock split of its outstanding Class A Limited Voting shares. The split was implemented by way of a stock dividend whereby shareholders, including BNN Split, received one-half of a Brookfield share for each share held. As a result, the company now holds 26,481,300 Class A Limited Voting shares of Brookfield. In addition, Brookfield increased its quarterly dividend on a post-split basis from US\$0.11 per share to US\$0.16 per share, commencing with the May 31, 2006 dividend. The increase will result in approximately an additional \$6 million of investment income available to BNN Split on an annualized basis.

Brookfield Asset Management Inc., focused on property, power and infrastructure assets, has over \$50 billion of assets under management and is co-listed on the New York and Toronto Stock Exchanges under the symbol BAM.

### Summary of Operating Results

The following table summarizes selected consolidated financial information of the company for the nine months ended June 30, 2006 and 2005 and for the 3 previous years ended September 30:

	Nine Months Ended June 30		Years Ended September 30		
	2006	2005	2005	2004	2003
<i>\$thousands, except per share amounts</i>					
Investment income	\$ 10,834	\$ 9,461	\$ 12,678	\$ 11,397	\$ 9,729
Income available for distribution on capital and Class A shares net of dividends paid on capital shares	—	—	—	(3,892)	267
Total assets	355,075	355,198	354,952	354,931	245,088
Total long-term liabilities	238,700	238,700	238,700	238,700	125,000
Capital share dividends paid per share	0.17	0.05	0.07	0.25	0.30
Preference share dividends paid per share					
Class A	\$ 1.17	\$ 1.17	\$ 1.56	\$ 1.56	\$ 1.56
Class AA	0.93	0.93	1.24	0.54	—

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

	2006		2005		2004			
	June	March	Dec.	Sept.	June	March	Dec.	Sept.
<i>\$thousands, except per share amounts</i>								
Investment income	\$ 4,694	\$ 3,021	\$ 3,119	\$ 3,217	\$ 3,098	\$ 3,080	\$ 3,283	\$ 3,227
Income available for distribution on capital and Class A shares net of dividends paid on capital shares	\$ 199	\$ —	\$ —	\$ (4)	\$ 4	\$ —	\$ —	\$ (324)

---

## Liquidity and Capital Resources

The company is a single-purpose investment company and does not require a large amount of capital to fund operating expenses. However, the company maintains a small amount of cash and an operating line of credit to fund such expenses from time to time.

Preferred shareholders have the right to surrender their shares for retraction at any time. As Preferred shares are tendered for retraction, the company will ordinarily try to find a purchaser for such shares pursuant to the company's remarketing agreement. If no purchasers can be found, the transaction will be funded from the proceeds of disposition of the investment portfolio or an additional offering of Preferred shares.

The Board of Directors declared dividends of \$0.390625 and \$0.309375 per Preferred share Class A and Class AA Series I respectively, payable on September 7, 2006 to holders of record on August 22, 2006.

The net asset value per unit, consisting of one Preferred share and one Capital share, was \$124.44 based on a Brookfield share price of \$44.86 as at June 30, 2006.

## Corporate Developments

At its meeting on August 10, 2006, the Board of Directors decide to seek shareholder approval to change the company's name to BAM Split Corp. to reflect the new stock symbol, BAM, of its principal investee company, Brookfield Asset Management Inc.

## Business Risks and Outlook

The company's investment objective is to hold a portfolio of Brookfield Asset Management Inc. shares in order to generate 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. The financial results of the company are impacted by the performance of the underlying investment in Brookfield. In addition, investment income is impacted by fluctuations in the US dollar as the company receives dividends from its investment in Brookfield shares in US dollars and pays dividends on its preferred and capital shares in Canadian dollars. Brookfield is a specialist asset manager which has approximately US\$50 billion of assets under management, with a focus on property, power and infrastructure assets, and is co-listed on the New York and Toronto Stock Exchanges.

The outlook for the company is positive. During the third quarter of 2006, the market price of Brookfield shares on the TSX increased by 15% from \$39.07 on December 31, 2005 to \$44.86 on June 30, 2006. Brookfield's Board of Directors have approved the regular quarterly dividend to US\$0.16 per share with a record date of August 1, 2006 on a post-split basis. These events are positive for the company, providing further support and growth for our shareholders.

## Review of Interim Financial Statements

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management. The company's independent auditor has not reviewed these financial statements.

On behalf of the Board of Directors,

*"signed"*

Sachin G. Shah  
Chief Financial Officer  
August 10, 2006

### **Forward-Looking Statements**

*This interim 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.*

## Balance Sheets

<i>\$thousands</i>	<i>Note</i>	<i>(unaudited)</i> <b>June 30 2006</b>	September 30 2005
<b>Assets</b>			
Cash and cash equivalents		\$ 221	\$ 102
Securities	2	354,829	354,829
Accounts receivable		25	21
		<b>\$ 355,075</b>	<b>\$ 354,952</b>
<b>Liabilities</b>			
Accounts payable		\$ —	\$ 76
Preferred shares		238,700	238,700
<b>Shareholders' Equity</b>			
Share capital	3	123,950	123,950
Deficit		(7,575)	(7,774)
		<b>\$ 355,075</b>	<b>\$ 354,952</b>

## Consolidated Statements of Income and Deficit

<i>(unaudited)</i> <i>\$thousands</i>	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Investment	\$ 4,694	\$ 3,098	\$ 10,834	\$ 9,461
<b>Expenses</b>				
Operating	51	50	185	174
Income available for distribution	4,643	3,048	10,649	9,287
Dividends paid on preferred shares	(2,944)	(2,944)	(8,830)	(8,830)
Income available for distribution on capital and Class A shares	1,699	104	1,819	457
Dividends paid on capital shares	(1,500)	(100)	(1,620)	(453)
	199	4	199	4
Deficit, beginning of period	(7,774)	(7,774)	(7,774)	(7,774)
<b>Deficit, end of period</b>	<b>\$ (7,575)</b>	<b>\$ (7,770)</b>	<b>\$ (7,575)</b>	<b>\$ (7,770)</b>
Dividends per Class A preferred share	\$ 0.3906	\$ 0.3906	\$ 1.17	\$ 1.17
Dividends per Class AA preferred share	\$ 0.3094	\$ 0.3094	\$ 0.93	\$ 0.93

## Consolidated Statements of Cash Flows

<i>(unaudited)</i> \$thousands	Three months ended June 30		Nine months ended June 30	
	2006	2005	2006	2005
<b>Cash flow from operating activities</b>				
Income available for distribution	\$ 4,643	\$ 3,048	\$ 10,649	\$ 9,287
Net change in non-cash working capital	—	258	(80)	263
	<b>4,643</b>	<b>3,306</b>	<b>10,569</b>	<b>9,550</b>
<b>Cash flow used in investing activities</b>				
Corporate investments	—	(11,000)	—	(11,000)
<b>Cash flow used in financing activities</b>				
Dividends paid on:				
Preferred shares	(2,944)	(2,944)	(8,830)	(8,830)
Capital shares	(1,500)	(100)	(1,620)	(453)
	<b>(4,444)</b>	<b>(3,044)</b>	<b>(10,450)</b>	<b>(9,283)</b>
Increase (decrease) in cash and equivalents	<b>199</b>	<b>(10,738)</b>	<b>119</b>	<b>(10,733)</b>
Cash and equivalents balance, beginning of period	<b>22</b>	<b>11,107</b>	<b>102</b>	<b>11,102</b>
<b>Cash and equivalents balance, end of period</b>	<b>\$ 221</b>	<b>\$ 369</b>	<b>\$ 221</b>	<b>\$ 369</b>

## Notes to the Consolidated Financial Statements

### 1. *Basis of Presentation*

The company is an investment company holding a portfolio of securities consisting of Class A Limited Voting shares of Brookfield Asset Management Inc. ("Brookfield"). The company was incorporated under the laws of the Province of Ontario on July 12, 2001.

### 2. *Securities*

The company accounts for its investment in Brookfield on a cost basis and accordingly will recognize dividends in the year of receipt. The portfolio consists of 26,481,300 Class A Voting shares.

### 3. *Share Capital*

The authorized share capital of the company consists of an unlimited number of preferred shares, capital shares and common shares.

As at June 30, 2006, the following preferred shares were issued and outstanding and have been included in liabilities:

	June 30, 2006
5,000,000 6.25% Class A	\$ 125,000,000
3,200,000 4.95% Class AA Series I	80,000,000
1,348,000 Class AA Series II	33,700,000
	<b>\$ 238,700,000</b>

The issued and outstanding share capital consists of:

	June 30, 2006
9,548,000 Capital shares	\$ 123,950,000
100 Class A Voting shares	100
	<b>\$ 123,950,100</b>

## Enquiries

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

#### **BNN Split Corp.**

Suite 300, P.O. Box 770  
BCE Place, 181 Bay Street  
Toronto, Ontario M5J 2T3  
Telephone: (416) 363-9491  
Facsimile: (416) 363-2856  
Website: [www.bnnsplit.ca](http://www.bnnsplit.ca)

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  
Telephone: (416) 643-5500 or  
(800) 387-0825 (toll free throughout North America)  
Facsimile: (416) 643-5501  
Website: [www.cibcmellon.com](http://www.cibcmellon.com)  
E-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)