

**Brookfield** Investments Corporation

2014

Annual Report

# Brookfield Investments Corporation

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Brookfield Investments Corporation holds investments in the property and forest products sectors, as well as a portfolio of preferred shares issued by companies in the Brookfield Asset Management Inc. (“Brookfield”) group. The common shares of Brookfield Investments Corporation are held by Brookfield Asset Management Inc., a global alternative asset manager operating assets with a focus on property, renewable energy, infrastructure and private equity.

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## FORWARD-LOOKING INFORMATION

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This annual report contains forward-looking information concerning the Brookfield Investments Corporation business and operations. The words “expect,” “believe,” “continue,” “intend,” “objective” and other expressions of similar import, or the negative variations thereof, and similar expressions of future or conditional verbs such as “can,” “may,” “will,” “would” or “could” are predictions of or indicate future events, trends or prospects or identify forward-looking information. Forward-looking information in this annual report includes information with respect to the following: the impact of newly-adopted accounting principles on our accounting policies and period-to-period comparisons, potential differences in product cycles, the value of our investments, future income taxes, our ability to generate stable income returns and capital appreciation, fund cash requirements, satisfy share retractions, finance our obligations, determine fair values and other statements with respect to our beliefs, outlooks, plans, expectations and intentions.

Although we believe that the anticipated future results or achievements expressed or implied by the forward-looking information and statements are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking information and statements because they involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking information and statements.

Factors that could cause actual results to differ materially from those contemplated or implied by the forward-looking information include general economic conditions, the behavior of financial markets including fluctuations in interest and exchange rates, the availability of equity and debt financing and other risks and factors detailed from time to time in our other documents filed with the Canadian securities regulators.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking information to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as may be required by law, we undertake no obligation to publicly update or revise any forward-looking information or statements, whether written or oral, that may be as a result of new information, future events or otherwise.

# REPORT TO SHAREHOLDERS

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Brookfield Investments Corporation (the "company") reported net income of \$104 million or \$2.09 per common share for the year ended December 31, 2014 compared with \$223 million, or \$4.48 per common share in 2013. Net income decreased by \$119 million compared to the prior year due to a larger amount of disposition gains recorded in the prior year, the elimination of earnings from assets disposed and negative foreign currency revaluation of non-U.S. Dollar assets.

Comprehensive income, which consists of net income and other comprehensive income, was \$238 million in 2014, representing a \$238 million increase compared to 2013. Other comprehensive income was \$134 million during the year, compared to a loss of \$223 million in 2013, and includes unrealized gains on the company's direct and indirectly held investments compared to unrealized losses and negative currency revaluation in the prior year.

On behalf of the Board:

A handwritten signature in black ink, appearing to read "E. Kress", with a stylized, flowing script.

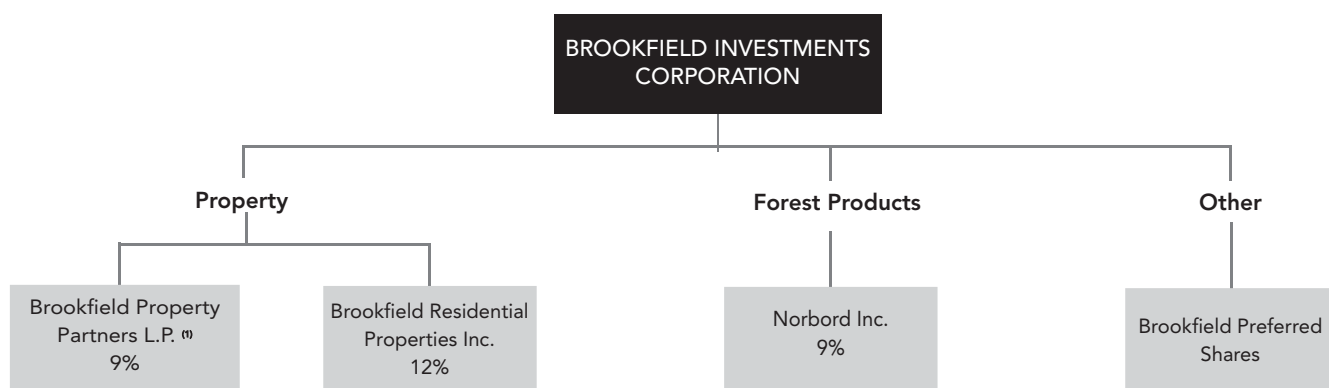
Edward C. Kress  
Chairman and President  
March 31, 2015

# MANAGEMENT'S DISCUSSION & ANALYSIS

This section of our annual report includes management's discussion and analysis of our financial results ("MD&A") for 2014. The MD&A is intended to provide shareholders with an assessment of the company's performance during 2014 compared to 2013, as well as information on our financial position and other relevant matters.

Brookfield Investments Corporation ("Brookfield Investments" or the "company") holds investments in the property and forest products sectors, as well as a portfolio of preferred shares issued by companies within the Brookfield Asset Management Inc. ("Brookfield") group. Brookfield is the company's sole common shareholder and owns more than \$1.0 billion of the company's retractable preferred shares

The company's simplified organizational structure is shown in the following chart:



(1) Indirectly held

The following analysis describes the components of the company's revenues and expenses in 2014, the related assets and liabilities, and the business environment for its operations as at December 31, 2014.

The U.S. dollar is the company's functional and presentation currency. All financial information is presented in U.S. dollars unless otherwise indicated. A significant portion of the company's assets and its Class 1 Senior Preferred Shares Series A, Class 1 Junior Preferred Shares Series B are denominated in Canadian dollars. As a result, changes in the rate of the exchange between the Canadian dollar and U.S. dollar will impact our operating results and financial position. Changes in the annual average rate of exchange will impact the value at which results are included in consolidated net income, whereas changes in spot rates will impact the values at which non U.S. assets and liabilities are included in our consolidated balance sheet.

The Canadian dollar exchange rates that impact our financial statements are below:

| Year-end Spot Rate |        |        | Change       |              | Average Annual Rate |        | Change       |
|--------------------|--------|--------|--------------|--------------|---------------------|--------|--------------|
| 2014               | 2013   | 2012   | 2014 vs 2013 | 2013 vs 2012 | 2014                | 2013   | 2014 vs 2013 |
| 0.8608             | 0.9414 | 1.0079 | (9)%         | (7)%         | 0.9057              | 0.9713 | (7)%         |

All financial data included in the MD&A has been presented in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The information in this section should be read in conjunction with the company's audited consolidated financial statements, which are included on pages 23 through 35 of this annual report. Additional information is available on the company's website at [www.brookfieldinvestments.com](http://www.brookfieldinvestments.com) and on SEDAR's website at [www.sedar.com](http://www.sedar.com).

The information in this section should be read in conjunction with the company's audited consolidated financial statements, which are included on pages 23 through 35 of this annual report. Additional information is available on the company's website at [www.brookfieldinvestments.com](http://www.brookfieldinvestments.com) and on SEDAR's website at [www.sedar.com](http://www.sedar.com).

## ANALYSIS OF NET INCOME

|                                                         | Years Ended December 31 |               |
|---------------------------------------------------------|-------------------------|---------------|
| (US\$ millions)                                         | 2014                    | 2013          |
| Investment income                                       |                         |               |
| Equity accounted income                                 |                         |               |
| Brookfield Property Partners distributions <sup>1</sup> | \$ 65                   | \$ 41         |
| Property income                                         | —                       | 25            |
| Forest Products income                                  | —                       | 46            |
| Dividend income                                         |                         |               |
| Brookfield Office Properties Inc.                       | —                       | 8             |
| Norbord Inc                                             | 11                      | 8             |
| Other securities                                        | 3                       | 4             |
| Interest Income                                         | 10                      | 7             |
|                                                         | 89                      | 139           |
| Realized and unrealized gains                           | 91                      | 132           |
| Foreign exchange loss                                   | (30)                    | (2)           |
|                                                         | 150                     | 269           |
| Interest expense                                        | (29)                    | (29)          |
| Net income before income taxes                          | 121                     | 240           |
| Income tax expense                                      | (17)                    | (17)          |
| <b>Net income</b>                                       | <b>\$ 104</b>           | <b>\$ 223</b> |

(1) The company's investment in Brookfield Property Partners "BPY" is classified as an available-for-sale security and is held through two equity accounted associates

### Investment Income

Investment income consists of income earned on the company's equity accounted investments, as well as dividends and interest income generated from the company's investment portfolio. Investment income decreased by \$50 million from 2013 to \$89 million primarily due to the sale of Western Forest Products ("Western") in the current year, which contributed \$46 million of equity accounted earnings in 2013.

Equity accounted income includes distributions from the company's investment in BPY, which is held through two equity accounted investments. BPY was formed through the contribution of the vast majority of Brookfield's commercial property investments in 2013. The company contributed to BPY its indirectly held investment in Canary Wharf, as well as its common and preferred share investments in Brookfield Office Properties and received a 9% indirect interest in BPY as consideration. The company recorded \$65 million (2013 - \$41 million) of BPY distributions during the year representing a full year's dividends earned on the company's indirect investment. Other property equity accounted income in 2013 included fair value gains on the company's previously held indirect investment in Canary Wharf.

Other dividend and interest income includes dividends on the company's investment securities and preferred share portfolio and interest on deposits receivable. The prior year included \$8 million of dividends received from Brookfield Office Properties common and preferred shares, which were contributed to BPY as part of its formation.

## Realized and Unrealized Gains

Realized and unrealized gains decreased from \$132 million in 2013 to \$91 million in 2014.

In March 2013 the company's common share interest in Norbord decreased to 9% following an equity issuance by Norbord in which the company did not participate. The company determined that it no longer exercised significant influence over Norbord at that time and classified its investment in Norbord as an available-for-sale security. The company recognized a gain of \$87 million in net income as a result of the change in its classification of Norbord.

Through a series of transactions, the company disposed of its investment in Western during 2013 and 2014. The company recorded a realized gain of \$91 million in 2014 as part of this disposition. Realized and unrealized disposition gains in the prior year included \$31 million of gains on disposition of Western and mark to market of warrants issued to the purchasers of Western common shares in 2013 which were exercised in 2014.

The company also realized a \$14 million disposition gain on the sale of securities within its preferred share portfolio in the prior year.

## Interest Expense

Interest expense includes dividend payments on the company's retractable preferred shares, which was \$29 million in 2014, consistent with the prior year.

## Foreign Currency Revaluation

Certain of the company's deposits receivable and payable are denominated in Canadian dollars, which are converted into the U.S. dollar for reporting purposes. Foreign currency revaluation in 2014 resulted in a \$30 million loss (2013 - \$2 million loss) due to the depreciation in the value of the Canadian dollar during 2014.

## Income Tax Expense

Income tax expense of \$17 million was recorded in 2014, consistent with the prior year.

## BALANCE SHEET ANALYSIS

| <i>(US\$ millions)</i>                 | <b>December 31, 2014</b> | December 31, 2013 |
|----------------------------------------|--------------------------|-------------------|
| Investment portfolio                   |                          |                   |
| Property                               | \$ 1,893                 | \$ 1,681          |
| Forest products                        | 107                      | 241               |
|                                        | <b>2,000</b>             | 1,922             |
| Other securities                       | 40                       | 44                |
| Deposits receivable                    | 599                      | 442               |
|                                        | <b>2,639</b>             | 2,408             |
| Accounts payable and other liabilities | 7                        | 14                |
| Loans payable                          | 10                       | —                 |
| Retractable preferred shares           | 1,057                    | 1,104             |
| Deferred tax liabilities               | 82                       | 45                |
| <b>Equity</b>                          | <b>\$ 1,483</b>          | <b>\$ 1,245</b>   |

## Investment Portfolio

The company's investments are focused within the property and forest product segments. At December 31, 2014 the company's investment portfolio consisted of the following:

| (US\$ millions, except %)              | Accounting<br>Methodology | Ownership          |            | Carrying Value |          |
|----------------------------------------|---------------------------|--------------------|------------|----------------|----------|
|                                        |                           | shares/ownership % |            |                |          |
|                                        |                           | 2014               | 2013       | 2014           | 2013     |
| Securities                             |                           |                    |            |                |          |
| Brookfield Residential Properties Inc. | Available-for-sale        | 13.7 / 12%         | 13.7 / 12% | \$ 329         | \$ 331   |
| Norbord Inc.                           | Available-for-sale        | 4.8/9%             | 4.8 / 9%   | 107            | 153      |
|                                        |                           |                    |            | 436            | 484      |
| Brookfield Property Partners L.P.      | Associate <sup>1</sup>    | n/a / 9%           | n/a / 12%  | 1,564          | 1,350    |
| Western Forest Product Inc.            | N/A                       | —                  | 96.0 / 25% | —              | 88       |
|                                        |                           |                    |            | 1,564          | 1,438    |
| Total                                  |                           |                    |            | \$ 2,000       | \$ 1,922 |

(1) Indirectly held through two equity accounted associates, BPY I L.P. and BPY II L.P., which account for the BPY units as available-for-sale securities

The company's investment in BPY consists of a 9% economic interest or 65 million equity units which it received in exchange for its direct investments in Brookfield Office Properties and Brookfield Europe L.P.'s property operations upon formation of BPY in April of 2013. The investment in BPY is held indirectly, through the company's interest in two equity accounted investments: BPY I L.P. and BPY II L.P., which had an aggregate carrying value of \$1,564 million at the end of 2014. This represented an increase of \$214 million since December 2013 primarily as a result of an increase in the public price of BPY to \$22.80 per unit from \$19.96 per unit.

The company's investment in Norbord Inc. consists of 4.8 million shares, which decreased in value by \$46 million during 2014, due to a \$9.62 decrease in the Norbord Inc. share price from \$31.86 to \$22.24 per share.

The company's investment in Brookfield Residential Properties consists of 13.7 million common shares, which decreased in value by \$2 million during 2014, due to a \$0.15 decrease in the Brookfield Residential Properties share price from \$24.21 to \$24.06 per share.

The company also holds a preferred share portfolio which provides stable cash flow and a source of capital to support its operations and future activities. The portfolio is classified as available-for-sale with changes in value recorded in other comprehensive income. The carrying value of the portfolio as at December 31, 2014 was \$40 million compared to \$44 million at December 31, 2013. The preferred shares are denominated in Canadian dollars and decreased in value relative to the U.S. Dollar. The portfolio consists of the following preferred shares:

| (US\$ millions, except number of shares) | Security                         | Class                              | Shares            |                   | Carrying Value    |                   |
|------------------------------------------|----------------------------------|------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                          |                                  |                                    | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
|                                          | Brookfield Asset Management Inc. | Class A Series 14 preferred shares | 350,000           | 350,000           | \$ 31             | \$ 33             |
|                                          | Brookfield Asset Management Inc. | Class A Series 15 preferred shares | 850,000           | 850,000           | 9                 | 11                |
|                                          |                                  |                                    |                   |                   | \$ 40             | \$ 44             |



## Deposits Receivable

Deposits receivable include funds on deposit with and borrowed from Brookfield, which bear interest at CDOR on Canadian dollar deposits, and at LIBOR on U.S. dollar denominated balances. The deposits are due on demand.

## Retractable Preferred Shares

Retractable preferred shares consist of \$129 million (2013 – \$141 million) Senior Preferred shares and \$928 million (2013 – \$963 million) Junior Preferred shares. The Senior and Junior Preferred shares are retractable at the option of the holder.

## Deferred Income Tax Liabilities

Deferred income tax liabilities relate primarily to temporary differences between the carrying value and tax value of investments within the investment portfolio.

## LIQUIDITY AND CAPITAL RESOURCES

The company generates sufficient cash flow from operations to fund its interest expense obligations. In addition, the company maintains funds on deposit and securities which, with varying degrees of timing, can be liquidated, and utilized to fund cash requirements. The company's sole common shareholder, Brookfield, holds, directly and indirectly, \$1,021 million of the company's retractable preferred shares. The remaining \$36 million of retractable preferred shares are held by other holders, and satisfaction of any retractions can be made through the company's general cash resources or through the proceeds from the sale of assets.

The company's investments generated cash receipts of \$89 million during the year ended 2014 in the form of dividends and interest, compared with \$64 million in 2013. Income from investments was utilized primarily for the payment of dividends related to retractable preferred shares issued by the company, which totalled \$29 million in 2014 (2013 – \$29 million).

The company generated \$69 million of cashflow from operating activities during 2014, compared with a \$26 million in 2013.

The company's outstanding common and retractable preferred shares are as follows:

| <i>Number of shares</i>           | <b>December 31, 2014</b> | December 31, 2013 |
|-----------------------------------|--------------------------|-------------------|
| Common shares                     | <b>49,847,899</b>        | 49,847,899        |
| Class 1 Senior Preferred Series A | <b>5,986,595</b>         | 5,987,195         |
| Class 1 Junior Preferred Series A | <b>17,999,718</b>        | 17,999,718        |
| Class 1 Junior Preferred Series B | <b>17,200,000</b>        | 17,200,000        |

## CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

| <i>(US\$ millions)</i>                      | Payments Due by Period |                       |                |                |                  |
|---------------------------------------------|------------------------|-----------------------|----------------|----------------|------------------|
|                                             | Total                  | Less Than<br>One Year | 2 - 3<br>Years | 4 - 5<br>Years | After 5<br>Years |
| Retractable preferred shares <sup>(1)</sup> |                        |                       |                |                |                  |
| Senior                                      | \$ 129                 | \$ 129                | \$ —           | \$ —           | \$ —             |
| Junior                                      | 928                    | 928                   | —              | —              | —                |

(1) Retractable at the option of the holder, as described above under Liquidity and Capital Resources

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The company owns a 9% indirect economic interest in BPY. This is structured through a direct and indirect interest

in two entities which the company exercises significant influence over: BPY I L.P. and BPY II L.P.. The company holds a 28.1% interest in BPY II L.P., which in turn holds 25.1% economic interest of BPY. The company holds a 36.2% interest in BPY Holdings L.P. (former Brookfield Europe L.P.) which holds a 24.3% interest in BPY I L.P. BPY I L.P. owns 24.5% of BPY. BPY I L.P. and BPY II L.P.'s investment in BPY is through BPY's redeemable exchangeable units, which are not entitled to any votes, and accordingly, BPY I L.P. and BPY II L.P. accounts for their respective economic interests in BPY as available-for-sale securities.

The preparation of financial statements in conformity with International Financial Reporting Standards 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; assessing other than temporary impairments of long-term investments; tax and other provisions and fair values.

## SUMMARY OF FINANCIAL INFORMATION

The following table summarizes select consolidated financial information of the company for the years ended December 31, 2014, 2013 and 2012:

| <i>Years ended December 31 (US\$ millions, except per share amounts)</i> | <b>2014</b>    | 2013    | 2012    |
|--------------------------------------------------------------------------|----------------|---------|---------|
| Investment income                                                        | <b>\$ 89</b>   | \$ 139  | \$ 76   |
| Net income                                                               | <b>104</b>     | 223     | 48      |
| Net income per common share                                              | <b>2.09</b>    | 4.48    | 0.95    |
| Total assets                                                             | <b>2,639</b>   | 2,408   | 2,332   |
| Total liabilities                                                        | <b>1,156</b>   | 1,163   | 1,201   |
| Preferred share dividends paid per share                                 |                |         |         |
| Class 1 Senior Preferred Series A                                        | <b>\$ 1.07</b> | \$ 1.13 | \$ 1.18 |
| Class 1 Junior Preferred Series A                                        | <b>1.23</b>    | 1.24    | 1.24    |

The following table summarizes select consolidated financial information of the company for the eight recently completed quarters:

| <i>(US\$ millions, except per share amounts)</i> | <b>2014</b>   |        |       |       | <b>2013</b> |       |       |       |
|--------------------------------------------------|---------------|--------|-------|-------|-------------|-------|-------|-------|
|                                                  | <b>Q4</b>     | Q3     | Q2    | Q1    | Q4          | Q3    | Q2    | Q1    |
| Investment income                                | <b>\$ 21</b>  | \$ 22  | \$ 23 | \$ 23 | \$ 33       | \$ 28 | \$ 30 | \$ 48 |
| Net income (loss)                                | <b>(6)</b>    | (6)    | 26    | 90    | 6           | 69    | 22    | 126   |
| Net income (loss) per common share               | <b>(0.13)</b> | (0.13) | 0.53  | 1.80  | 0.13        | 1.38  | 0.45  | 2.52  |

The company's investment income consists of equity accounted income and dividend and interest income from the company's investment portfolio and fluctuates due to the amount of equity earnings recorded in a period as well as for changes in interest rates on the company's floating rate investments. Fluctuations in net income typically relate to the recognition of realized and unrealized gains as well as foreign currency exchange on monetary assets and liabilities. Net income in the first quarter of 2013 included an \$87 million dilution gain on the sale of Norbord. Net income in the third quarter of 2013 and first quarter of 2014 included \$37 million and \$90 million of gains, respectively, as a result of the partial disposition of Western common shares through a series of independent transactions. The company recorded a net loss in the third and fourth quarter of 2014 due primarily to unfavourable foreign currency revaluation of \$16 million and \$13 million respectively on non-U.S. Dollar monetary assets.

## RELATED PARTY TRANSACTIONS

A significant portion of the company's securities and financing transactions are conducted with Brookfield. Loans receivable and payable include funds on deposit with and borrowed from Brookfield, which bear interest at CDOR

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on Canadian dollar deposits, and at LIBOR on U.S. dollar denominated balances and are available on demand. Dividend and interest income during 2014 from related party securities and deposits totalled \$24 million (2013 – \$27 million).

On April 12, 2013 the company exchanged its 11% common share interest in Brookfield Office Properties Inc., as well as the company's portfolio of preferred shares of Brookfield Office Properties for a 11% economic interest in BPY, a newly-created company which owns substantially all of Brookfield's commercial property investments. In addition, the company's 36% limited partnership interest in BPY Holdings L.P. (former Brookfield Europe L.P.) sold its interest in Canary Wharf Group plc, as well as certain other European assets, to BPY and received as consideration an indirect 9% economic interest in BPY's business. The transactions were measured at fair value and the company recognized a \$113 million gain in equity as a result of the difference between the carrying value of the assets exchanged compared to the company's proportionate share of BPY's equity received.

## **FUTURE CHANGES IN ACCOUNTING STANDARDS**

### **Financial Instruments**

In July 2014, the IASB issued the final publication of IFRS 9, *Financial Instruments* ("IFRS 9"), superseding IAS 39, *Financial Instruments*. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018, with early adoption permitted. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

## **BUSINESS RISKS AND OUTLOOK**

Brookfield Investments' commercial property investments are subject to general economic conditions as well as risks specifically associated with the commercial property market. The company is also subject to exchange rate risk since its earnings from Brookfield Europe are denominated in pounds sterling and certain securities and loan positions are held in Canadian dollars. The company's forest product investments are cyclical. Fluctuations in the general level of economic activity in the world's major economies influence the demand for and prices of the various products produced by its investee companies, although the cycles for individual products may be at different phases at any time. The company's earnings from this sector are particularly sensitive to changes in the prices of panelboards and paper. A further discussion on the risks associated with each of the company's investments is included in Management's Discussion and Analysis in each of their respective annual reports, which can be accessed through SEDAR at [www.sedar.com](http://www.sedar.com) or through their websites as provided earlier in this report.

## **OTHER MATTERS**

### **Compensation of Directors**

Directors of the company who are not full-time employees of either the company or an affiliate of the company are entitled to receive an annual retainer of C\$8,500, with no additional meeting attendance fees. Directors are also reimbursed for travel and other out-of-pocket expenses incurred in connection with attending Board and committee meetings. Directors' compensation arrangements are approved by the Board. The company paid a total of C\$25,500 to the three independent directors during 2014. Messrs. Barratt, Driman and Kelly each received total director's fees of C\$8,500 in 2014 and received no other compensation from the company. Messrs. Dean and Kress received no compensation from the company for serving as a director in 2014.

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## Executive Compensation

No cash compensation was paid or is payable by the company or its subsidiaries to executive officers of the company in their capacities as such during or in respect of the financial years ended December 31, 2014 and 2013. Brookfield provides management and administrative services to the company but the company did not make any payments to the Company during 2014 or 2013 in respect of those services. Mr. Gorgi and Mmes. Yuen and Corso are employees of Brookfield and are remunerated by that company. None of their compensation from Brookfield is attributable to their services as executive officers of the company. Since our executive officers are compensated and, other than Mr. Kress, employed by Brookfield, the Board of Directors of the company does not have a compensation committee and does not engage compensation consultants or advisors. Brookfield's compensation policies and practices focus on long-term incentives and are intended to encourage management to make decisions and take actions that will create long-term sustainable cash flow growth and result in improvement in long-term shareholder value as reflected in the increase in the value of Brookfield's Class A Limited Voting Shares. Brookfield has developed formal policies that encourage management to consider the risks related to their decisions and actions and to make decisions and take actions accordingly. Details regarding these policies and on Brookfield's approach to executive compensation generally are set out in "Part Five — Report on Executive Compensation" starting on page 39 of Brookfield's Management Information Circular which is available on Brookfield's website at [www.brookfield.com](http://www.brookfield.com) and SEDAR at [www.sedar.com](http://www.sedar.com). The Board of Directors has not identified any risks with the company's compensation policies and practices that are reasonably likely to have a material adverse effect on the company.

## Audit Committee

As a venture issuer that is not required to prepare an information circular or an annual information form, the company is required by section 6.2 of National Instrument 52-110 – Audit Committees ("NI 52-110") to make the disclosure regarding our Audit Committee of our Board of Directors required by Form 52-110F2 in our annual MD&A. This disclosure is attached hereto as Appendix A.

## Corporate Governance

As a venture issuer that is not required to prepare an information circular or an annual information form, the company is required by section 2.2 of National Instrument 58-101 – Disclosure of Corporate Governance Practices ("NI 58-101") to make the corporate governance disclosure required by Form 58-101F2 in our annual MD&A. This disclosure is attached hereto as Appendix B.

## Additional Information

Additional information relating to the company is available on SEDAR at [www.sedar.com](http://www.sedar.com).



Derek Gorgi  
Vice-President and Chief Financial Officer  
March 31, 2015

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## AUDIT COMMITTEE CHARTER

MARCH 2015

A committee of the board of directors (the "Board") of Brookfield Investments Corporation (the "Corporation") to be known as the Audit Committee (the "Committee") shall have the following terms of reference:

### 1. MEMBERSHIP AND CHAIR

The Board shall appoint annually from its number three or more directors (the "Members" and each a "Member") to serve on the Committee at the pleasure of the Board until the Member ceases to be a director, resigns or is replaced, whichever occurs first.

The Members will be selected by the Board and any Member may be removed from office or replaced at any time by the Board. All of the Members of the Committee will be Independent Directors unless exempt from the independence requirements set out in Multilateral Instrument 52-110 - Audit Committees. In addition, every Member will be Financially Literate. Members may not serve on more than two other public company audit committees, except with the prior approval of the Board.

The Board shall appoint one Member as the chairperson of the Committee. If the chairperson is absent from a meeting, the Members shall select a chairperson from those in attendance to act as chairperson of the meeting.

### 2. RESPONSIBILITIES

The Committee shall:

- (a) oversee the work of the Corporation's external auditor (the "auditor") engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation;
- (b) review and evaluate the auditor's independence, experience, qualifications and performance and determine whether the auditor should be appointed or re-appointed and nominate the auditor for appointment or re-appointment by the shareholders;
- (c) where appropriate, terminate the auditor;
- (d) when a change of auditor is proposed, review all issues related to the change, including the information to be included in the notice of change of auditor required, and the orderly transition of such change;
- (e) review the terms of the auditor's engagement and the appropriateness and reasonableness of the proposed audit fees;
- (f) at least annually, obtain and review a report by the auditor describing:
  - i) the auditor's internal quality-control procedures; and
  - ii) any material issues raised by the most recent internal quality control review, or peer review, of the auditor, or review by any independent oversight body such as the Canadian Public Accountability Board, or governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the auditor, and the steps taken to deal with any issues raised in any such review;

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(g) at least annually, confirm that the auditor has submitted a formal written statement describing all of its relationships with the Corporation; discuss with the auditor any disclosed relationships or services that may affect its objectivity and independence; obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of Chartered Accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and, confirm that it has complied with applicable laws with the rotation of certain members of the audit engagement team;

(h) review and evaluate the lead partner of the auditor;

(i) ensure the regular rotation of the audit engagement team members as required by law, and periodically consider whether there should be regular rotation of the auditor firm;

(j) meet privately with the auditor as frequently as the Committee feels is appropriate to fulfill its responsibilities, which will not be less frequently than annually, to discuss any items of concern to the Committee or the auditor, including:

i) planning and staffing of the audit;

ii) any material written communications between the auditor and management;

iii) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;

iv) the extent to which the auditor is satisfied with the nature and scope of its examination;

v) whether or not the auditor has received the full co-operation of management of the Corporation;

vi) the auditor's opinion of the competence and performance of the Chief Financial Officer of the Corporation ("CFO") and other key financial personnel;

vii) the items required to be communicated to the Committee in accordance with generally accepted auditing standards;

viii) all critical accounting policies and practices to be used by the Corporation;

ix) all alternative treatments of financial information within International Financial Reporting Standards ("IFRS") that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor; and

x) any difficulties encountered in the course of the audit work, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with management and management's response;

(k) approve, if permitted by law, the appointment of the auditor to provide any audit service or non-prohibited non-audit service.

(l) resolve any disagreements between management and the auditor regarding financial reporting;

(m) review, and, where appropriate, recommend for approval by the Board, the following:

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- i) audited annual financial statements, in conjunction with the report of the external auditor;
  - ii) interim financial statements;
  - iii) annual and interim management discussion and analysis of financial condition and results of operation;
  - iv) reconciliations of the annual or interim financial statement; and
  - v) all other audited or unaudited financial information contained in public disclosure documents, including without limitation, any prospectus, or other offering or public disclosure documents and financial statements required by regulatory authorities;
- (n) discuss earnings news releases and other news releases containing financial information (to ensure consistency of the disclosure to the financial statement), including the use of "pro forma" or "adjusted" non-IFRS information in such news releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;
- (o) review the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Corporation's financial statements;
- (p) review disclosures made to the Committee by the Corporations President (the "President") and CFO during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of the Corporation's internal control over financial reporting which are reasonably likely to adversely affect the Corporation's ability to record, process, summarize and report financial information, and any fraud involving management or other employees;
- (q) review the effectiveness of management's policies and practices concerning financial reporting, any proposed changes in major accounting policies, the appointment and replacement of management responsible for financial reporting and the internal audit function;
- (r) review the adequacy of the internal controls that have been adopted by the Corporation to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records and any special audit steps adopted in light of material control deficiencies;
- (s) review the controls and procedures that have been adopted to confirm that material information about the Corporation and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed and to review the public disclosure of financial information extracted or derived from the issuer's financial statements and periodically assess the adequacy of these procedures;
- (t) review periodically, the Corporation's policies with respect to risk assessment and management, particularly financial risk exposure, including the steps taken to monitor and control risks;
- (u) review periodically, the status of taxation matters of the Corporation;
- (v) review, with legal counsel where required, such litigation, claims, tax assessments, transactions, material inquiries from regulators and governmental agencies or other contingencies which may have a material impact on financial results or which may otherwise adversely affect the financial well-being of the Corporation;
- (w) review periodically the Corporation's susceptibility to fraud and oversee management's processes for identifying and managing the risks of fraud; and
- (x) consider other matters of a financial nature as directed by the Board.

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### **3. LIMITATIONS OF AUDIT COMMITTEE ROLE**

The Committee's function is one of oversight. The Corporation's management is responsible for preparing the Corporation's financial statements and, along with the internal audit function, for developing and maintaining systems of internal accounting and financial controls. The auditor will assist the Committee and the Board in fulfilling their responsibilities for review of the financial statements and internal controls, and the auditor will be responsible for the independent audit of the financial statements and internal controls. The Committee expects the auditor to call to its attention any accounting, auditing, internal accounting control, regulatory or other related matters that the auditor believes warrant consideration or action. The Committee recognizes that the Corporation's management and the internal and independent audit teams have more knowledge and information about the Corporation's financial affairs than do the Committee's members. Accordingly, in carrying out its oversight responsibilities, the Committee does not provide any expert or special assurance as to the Corporation's financial statements or internal controls or any professional certification as to the auditor's work.

### **4. REPORTING**

The Committee will report at least annually to the Board on:

- (a) the auditor's independence;
- (b) the performance of the auditor and the Committee's recommendations regarding its reappointment or termination;
- (c) the performance of its internal audit function;
- (d) the adequacy of the Corporation's internal controls and disclosure controls;
- (e) its recommendations regarding the annual and interim financial statements of the Corporation and any reconciliation of the Corporation's financial statements, including any issues with respect to the quality or integrity of the financial statements;
- (f) its review of any other public disclosure document;
- (g) the Corporation's compliance with legal and regulatory requirements, particularly those related to financial reporting; and
- (h) all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

### **5. COMPLAINTS PROCEDURE**

The Committee will establish a procedure for the receipt, retention and follow-up of complaints received by the Corporation regarding accounting, internal controls, disclosure controls or auditing matters and a procedure for the confidential, anonymous submission of concerns by employees of the Corporation regarding such matters.

### **6. REVIEW AND DISCLOSURE**

The Committee will review this Charter at least annually and submit it to the Board for approval with such further amendments as it deems necessary and appropriate.



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## **7. ASSESSMENT**

At least annually, the Committee will review its effectiveness in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the corporate governance guidelines adopted by the Board.

## **8. ACCESS TO OUTSIDE ADVISORS AND SENIOR MANAGEMENT**

The Committee may retain any outside advisor including legal counsel, at the expense of the Corporation, without the Board's approval, at any time. The Committee has the authority to determine any such advisor's fees.

The Corporation will provide for appropriate funding, for payment of compensation to any auditor engaged to prepare or issue an audit report or perform other audit, review or attest services, and ordinary administrative expenses of the Committee.

Members will meet privately with senior management as frequently as they feel is appropriate to fulfill the Committee's responsibilities, but not less than annually.

## **9. MEETINGS**

Meetings of the Committee may be called by any Member, the Chair of the Board, the President or CFO or the internal auditor or the auditor. Meetings will be held each quarter and at such additional times as is necessary for the Committee to fulfill its responsibilities. The Committee shall appoint a secretary to be the secretary of each meeting of the Committee and to maintain minutes of the meeting and deliberations of the Committee.

The powers of the Committee shall be exercisable at a meeting at which a quorum is present. A quorum shall be not less than a majority of the Members from time to time. Matters decided by the Committee shall be decided by majority vote. Subject to the foregoing, the Business Corporations Act (Ontario) and the by-laws, and unless otherwise determined by the Board, the Committee shall have the power to regulate its procedure.

Notice of each meeting shall be given to each Member, the internal auditor, the auditor, and to the Chair of the Board and the President. Notice of meeting may be given verbally or by letter, by facsimile or telephone not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting and attendance at a meeting is deemed waiver of notice. The notice need not state the purpose or purposes for which the meeting is being held.

The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Committee may require the auditors and/or members of the Corporation's management to attend any or all meetings.

## **10. DEFINITIONS**

Capitalized terms used in this Charter and not otherwise defined have the meaning attributed to them below:

"Financially Literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

"Independent Director" means a director who has been affirmatively determined by the Board to have no material relationship with the Corporation, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation. In addition to any other requirement of applicable securities laws or stock exchange provisions, a director who:

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- (a) is or was an employee or executive officer, or whose immediate family member is or was an executive officer, of the Corporation is not independent until three years after the end of such employment relationship;
  - (b) is receiving or has received, or whose immediate family member is receiving or has received, during any 12-month period within the last three years more than Cdn\$75,000 in direct compensation from the Corporation, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent;
  - (c) is or was affiliated with or employed by, or whose immediate family member is or was employed in a professional capacity by, a present or former internal or external auditor of the Corporation is not independent until three years after the end of the affiliation or employment relationship with the auditor;
  - (d) is or was employed as, or whose immediate family member is or was employed as, an executive officer of another company (or its parent or a subsidiary) where any of the present (at the time of review) executive officers of the Corporation serve or served on that company's (or its parent's or a subsidiary's) compensation committee, is not independent until three years after the end of such service or the employment relationship; and
  - (e) is an executive officer or an employee of, or whose immediate family member is an executive officer of, another company (or its parent or a subsidiary) that has made payments to, or received payments from, the Corporation for property or services in an amount which, in any of the last three fiscal years exceeds the greater of US\$1 million or 2% of such other company's consolidated gross revenues, in each case, is not independent until three years after falling below such threshold.

Additionally, an Independent Director for the purpose of the Committee specifically may not:

- (a) accept directly or indirectly any consulting, advisory, or other compensatory fee from the Corporation, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); or
- (b) be an affiliated person of the Corporation (within the meaning of applicable rules and regulations).

For the purposes of the definition of Independent Director, the term Corporation includes any parent, subsidiary or other affiliated entity of the Corporation.

In addition to the requirements for independence set out in paragraph (c) above, Members must disclose any other form of association they have with a current or former external or internal auditor of the Corporation to the Board for a determination as to whether this association affects the Member's status as an Independent Director.

This Charter of the Audit Committee was reviewed and approved by the Board on March 26, 2015.

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## CORPORATE GOVERNANCE INFORMATION

### MANDATE OF THE BOARD

The mandate of the board of directors of the company (the "Board") is to supervise the conduct of the affairs of the company directly and through its committees. In so doing, the Board acts always in the best interests of the company. In carrying out its responsibilities, the Board appoints the senior executives of the company and meets with them on a quarterly basis, or more often if necessary, to receive and consider reports on the company's business. Along with those matters which by law must be approved by the Board, key strategic decisions are also submitted by management to the Board for approval.

The Board reviews and approves material reports issued to shareholders, including annual and interim financial statements, as well as materials prepared for shareholders' meetings. The Board also approves the company's overall business strategies and annual business plans.

The Board's mandate is set out in a written Charter which is renewed and approved annually. The Board's Charter is reproduced in full in this Report to Shareholders.

The Board meets at least once in each quarter, with additional meetings held when appropriate. Meeting frequency changes depending on the opportunities or risks facing the company. During 2014, the Board of Directors held four regular meetings, and its Audit Committee met four times.

### APPOINTMENT OF DIRECTORS

The company supports the appointment of independent and related directors recommended by Brookfield, the company's sole shareholder. This combination of independent and related directors leads to a healthy exchange in Board deliberations, resulting in objective, well-balanced and informed discussion and decision making. Brookfield's nominees for election to the Board are reviewed by the Board.

New directors are supplied with comprehensive information about the company and its major investments. Directors are provided with opportunities to meet individually in work sessions with senior management to obtain further insight into the operations of the company.

Director compensation is reviewed annually by the Board, taking into account the risks and responsibilities involved in being a director of the company, the requirement to participate in scheduled and special Board meetings, expected participation on committees of the Board and the compensation paid to directors of comparable companies. The Board also periodically assesses the size and composition of the Board and its committees, reviews the effectiveness of the Board's operations and its relations with management, and assesses the performance of the directors.

### COMPOSITION OF THE BOARD

The Board consists of four members. Three of the four directors, Messrs. John Barratt, Howard Driman and James Kelly, are considered by the company to be independent, that is, free from any direct or indirect or relationships which could, or could reasonably be expected to, interfere with the director's exercise of independent judgment. Messrs. Barratt, Kelly and Edward Kress, a related director, are also directors of Partners Value Split Corp., a company whose preferred shares are listed on the TSX, and which owns approximately 8.5% of the shares of Brookfield. Mr. Kress is also a director of Partners Value Fund Inc., a company listed on the TSX Venture Exchange, which owns approximately 9.0% of the shares of Brookfield, including 8% of the shares of Brookfield that Partners Value Fund Inc. holds through Partners Value Split Corp. Mr. Kress is a former officer of Brookfield and is considered by the company to be a related director. The Board believes that the composition of the Board fairly represents the company.

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The Board's three independent directors meet in private sessions at the conclusion of all regularly scheduled Board meetings under the leadership of the independent director who is also the Chair of the Board's Audit Committee

## **RELATIONSHIP WITH MANAGEMENT**

Each year, the Board discusses the company's strategic initiatives and business plans with management. The Board's annual approval of the business plan constitutes the mandate for management to conduct the affairs of the company, with material deviations being reported and considered as appropriate by the Board.

In addition to the reports presented to the Board at its meetings, the Board is also kept informed by management of important corporate developments on a regular basis. The directors periodically assess the quality, completeness and timeliness of this information, particularly insofar as it relates to identifying the principal risks facing the company and the initiatives being taken to manage these risks. The Board also meets independently of management from time to time and the independent members of the Board have the authority to call meetings of the Board at any time.

Since the company has no dedicated management or administrative staff, it has not adopted a written code of business conduct. The directors and officers of the company are subject to Brookfield's written Code of Business Conduct and Ethics that has been adopted by the board of directors of Brookfield. A copy of this code is available on the website of Brookfield at [www.brookfield.com](http://www.brookfield.com) at Corporate/Conduct Guidelines and is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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## BOARD OF DIRECTORS CHARTER

March 2015

### 1. ROLE OF THE BOARD

The role of the board of directors (the "Board") of Brookfield Investments Corporation (the "Corporation") is to oversee, directly and through its committees, the business and affairs of the Corporation, which are conducted by its officers and employees under the direction of the President of the Corporation (the "President").

### 2. AUTHORITY AND RESPONSIBILITIES

The Board meets each quarter to review reports by management on the Corporation's performance and other relevant matters of interest. In addition to the general supervision of management, the Board performs the following functions:

- (a) strategic planning – overseeing the strategic planning process within the Corporation and, at least annually, reviewing, approving and monitoring the strategic plan for the Corporation including fundamental financial and business strategies and objectives;
- (b) risk assessment – assessing the major risks facing the Corporation and reviewing, approving and monitoring the manner of managing those risks;
- (c) President – to the extent desirable, developing a position description for the President including the corporate objectives that the President is responsible for meeting and selecting, evaluating and compensating the President;
- (d) senior management – to the extent desirable, overseeing the selection, evaluation and compensation of senior management, and monitoring succession planning;
- (e) communications and disclosure policy – adopting a communications and disclosure policy for the Corporation, including ensuring the timeliness and integrity of communications to shareholders and establishing suitable mechanisms to receive stakeholder views;
- (f) corporate governance – developing the Corporation's approach to corporate governance, including developing a set of corporate governance principles and guidelines applicable to the Corporation;
- (g) internal controls – reviewing and monitoring the controls and procedures within the Corporation to maintain its integrity, including its disclosure controls and procedures, and its internal controls and procedures for financial reporting and compliance; and
- (h) maintaining integrity – on an ongoing basis, satisfying itself as to the integrity of the President and executive officers and that the President and other executive officers create a culture of integrity throughout the Corporation.

### 3. COMPOSITION AND PROCEDURES

- (a) Size of Board and selection process – The directors of the Corporation are appointed each year by the Corporation's sole voting shareholder (the "Sole Voting Shareholder"). The Board proposes a slate of nominees to the Sole Voting Shareholder for election.
- (b) Qualifications – Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the Corporation and its shareholders. They should possess skills

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and competencies in areas that are relevant to the Corporation's activities. At least 50% of the directors will be independent directors based on the rules and guidelines of applicable stock exchanges and securities regulatory authorities.

(c) Director orientation – The Corporation's management team is responsible for providing an orientation and education program for new directors.

(d) Meetings – The Board holds at least four scheduled meetings a year. The Board is responsible for its agenda. Materials for each meeting are distributed to the directors in advance of the meetings. At the conclusion of each regularly scheduled meeting, the independent directors meet without management and related directors present. The Chair of the Board chairs these meetings.

(e) Committees – The Board has established one standing committee, the Audit Committee, to assist it in discharging its responsibilities. Special committees are established from time to time to assist the Board in connection with specific matters. The chair of the Audit Committee reports to the Board following meetings of the committee. The terms of reference of the Audit Committee are reviewed annually by the Board.

(f) Evaluation – The Board performs an annual evaluation of the effectiveness of the Board as a whole, its committees and the contributions of individual directors. In addition, the Audit Committee assesses its performance annually.

(g) Compensation – The Board reviews annually the compensation for non-management directors. In reviewing the adequacy and form of compensation, the Board seeks to ensure that the compensation reflects the responsibilities and risks involved in being a director of the Corporation and aligns the interests of the directors with the best interests of the Corporation and its shareholders.

(h) Access to independent advisors – The Board and any committee may at any time retain outside financial, legal or other advisors at the expense of the Corporation. Any director may, subject to the approval of the Chair of the Board, retain an outside advisor at the expense of the Corporation.

This Charter of the Board of Directors was reviewed and approved by the Board on March 26, 2015.

# MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the company's management which is responsible for their integrity, 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 consolidated financial statements have been prepared in conformity with IFRS, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 23 through 35 in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through the 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, oversee 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.



Toronto, Canada  
March 31, 2015

Derek Gorgi  
Vice-President and Chief Financial Officer

# INDEPENDENT AUDITOR'S REPORT

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## TO THE SHAREHOLDERS OF BROOKFIELD INVESTMENTS CORPORATION:

We have audited the accompanying consolidated financial statements of Brookfield Investments Corporation, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Investments Corporation as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants  
March 31, 2015

Toronto, Canada



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

| (US\$ millions)                        | Note | December 31<br>2014 | December 31<br>2013 |
|----------------------------------------|------|---------------------|---------------------|
| <b>Assets</b>                          |      |                     |                     |
| Current assets                         |      |                     |                     |
| Deposits receivable                    | 3    | \$ 599              | \$ 442              |
| Securities                             | 4    | 40                  | 44                  |
| Non-current assets                     |      |                     |                     |
| Investments – Securities               | 5    | 436                 | 484                 |
| Investments – Associates               | 5    | 1,564               | 1,438               |
|                                        |      | <b>\$ 2,639</b>     | <b>\$ 2,408</b>     |
| <b>Liabilities</b>                     |      |                     |                     |
| Current liabilities                    |      |                     |                     |
| Accounts payable and other liabilities |      | \$ 7                | \$ 14               |
| Loans payable                          |      | 10                  | —                   |
| Retractable preferred shares           | 6    | 1,057               | 1,104               |
| Deferred income taxes liabilities      | 8    | 82                  | 45                  |
| <b>Equity</b>                          | 7    | <b>1,483</b>        | <b>1,245</b>        |
|                                        |      | <b>\$ 2,639</b>     | <b>\$ 2,408</b>     |

See accompanying notes to the consolidated financial statements

On behalf of the Board:



Edward C. Kress  
Director



John P. Barratt  
Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

| <i>Years ended December 31 (US\$ millions, except per share amounts)</i> | <i>Note</i> | <b>2014</b>    | <b>2013</b>    |
|--------------------------------------------------------------------------|-------------|----------------|----------------|
| <b>Investment income</b>                                                 |             |                |                |
| Equity accounted income                                                  | 5           | \$ 65          | \$ 112         |
| Dividend and interest income                                             |             | 24             | 27             |
| Realized and unrealized gains                                            | 5           | 91             | 132            |
| Foreign exchange loss                                                    |             | (30)           | (2)            |
| Interest expense                                                         | 6           | (29)           | (29)           |
| Income tax expense                                                       | 8           | (17)           | (17)           |
| <b>Net income</b>                                                        |             | <b>\$ 104</b>  | <b>\$ 223</b>  |
| <b>Net income per common share</b>                                       | 7           | <b>\$ 2.09</b> | <b>\$ 4.48</b> |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>Years ended December 31 (US\$ millions)</i>            | <b>2014</b>   | <b>2013</b>  |
|-----------------------------------------------------------|---------------|--------------|
| Net income                                                | \$ 104        | \$ 223       |
| Other comprehensive income (loss)                         |               |              |
| Foreign currency translation                              | (5)           | (48)         |
| Available-for-sale securities - unrealized gains (losses) | (49)          | (1)          |
| Equity accounted other comprehensive income (loss)        | 216           | (203)        |
| Deferred income tax                                       | (28)          | 29           |
|                                                           | <b>134</b>    | <b>(223)</b> |
| Comprehensive income                                      | <b>\$ 238</b> | <b>\$ —</b>  |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| <i>Year ended December 31, 2014 (US\$ millions)</i> | Note | Common<br>Shares | Contributed<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total           |
|-----------------------------------------------------|------|------------------|------------------------|----------------------|--------------------------------------------------------|-----------------|
| <b>Balance as at December 31, 2013</b>              | 2    | \$ 1,081         | \$ 149                 | \$ 102               | \$ (87)                                                | \$ 1,245        |
| Changes in period                                   |      |                  |                        |                      |                                                        |                 |
| Net income                                          |      | —                | —                      | 104                  | —                                                      | 104             |
| Other comprehensive income                          |      | —                | —                      | —                    | 134                                                    | 134             |
|                                                     |      | —                | —                      | 104                  | 134                                                    | 238             |
| <b>Balance as at December 31, 2014</b>              |      | <b>\$ 1,081</b>  | <b>\$ 149</b>          | <b>\$ 206</b>        | <b>\$ 47</b>                                           | <b>\$ 1,483</b> |

| <i>Year ended December 31, 2013 (US\$ millions)</i> | Note | Common<br>Shares | Contributed<br>Surplus | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total           |
|-----------------------------------------------------|------|------------------|------------------------|-----------------------------------|--------------------------------------------------------|-----------------|
| <b>Balance as at December 31, 2012</b>              | 2    | \$ 1,081         | \$ 35                  | \$ (119)                          | \$ 134                                                 | \$ 1,131        |
| Changes in period                                   |      |                  |                        |                                   |                                                        |                 |
| Net income                                          |      | —                | —                      | 223                               | —                                                      | 223             |
| Other comprehensive income (loss)                   |      | —                | —                      | —                                 | (223)                                                  | (223)           |
| Disposition gain                                    |      | —                | 114                    | (2)                               | 2                                                      | 114             |
|                                                     |      | —                | 114                    | 221                               | (221)                                                  | 114             |
| <b>Balance as at December 31, 2013</b>              |      | <b>\$ 1,081</b>  | <b>\$ 149</b>          | <b>\$ 102</b>                     | <b>\$ (87)</b>                                         | <b>\$ 1,245</b> |

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>Years ended December 31 (US\$ millions)</i>     | Note | 2014   | 2013   |
|----------------------------------------------------|------|--------|--------|
| Cash flow from operating activities                |      |        |        |
| Net income                                         |      | \$ 104 | \$ 223 |
| Adjust for the following:                          |      |        |        |
| Undistributed equity accounted income              |      | —      | (75)   |
| Disposition gains                                  |      | (91)   | (141)  |
| Deferred income tax provisions                     |      | 8      | 17     |
| Net change in non-cash working capital and other   |      | 48     | 2      |
|                                                    |      | 69     | 26     |
| Cash flow from investing activities                |      |        |        |
| Proceeds from sale of Western Forest Products Inc. |      | 164    | 146    |
| Proceeds from sale of securities                   |      | —      | 121    |
|                                                    |      | 164    | 267    |
| Cash and deposits receivable                       |      |        |        |
| Increase in cash and deposits receivable           |      | 233    | 293    |
| Impact of foreign exchange                         |      | (76)   | (31)   |
| Balance, beginning of year                         |      | 442    | 180    |
| Balance, end of year                               | 12   | \$ 599 | \$ 442 |

See accompanying notes to the consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 1. CORPORATE INFORMATION

Brookfield Investments Corporation ("Brookfield Investments" or the "company") holds investments in the property and forest products sectors, as well as a portfolio of preferred shares issued by companies within the Brookfield Asset Management Inc. group. The company is listed on the TSX Venture exchange under the symbol BRN.PR.A. Brookfield Investments was formed by articles of amalgamation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the company is Brookfield Place, 181 Bay Street, Toronto, Ontario, M5J 2T3.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) Statement of Compliance

These consolidated financial statements represent the annual financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of the company on March 31, 2015.

### (B) Basis of Presentation

The consolidated financial statements of Brookfield Investments are prepared on a going concern basis. All intercompany transactions and balances have been eliminated. The company's functional and reporting currency is U.S. dollars.

### (C) Future Changes in Accounting Policies

#### Financial Instruments

In July 2014, the IASB issued the final publication of IFRS 9, *Financial Instruments* ("IFRS 9"), superseding IAS 39, *Financial Instruments*. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of a hedging relationship. The standard has a mandatory effective date for annual periods beginning on or after January 1, 2018, with early adoption permitted. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

### (D) Deposits Receivable

Deposits receivable are recorded at cost, which approximates fair value. The company places surplus cash on deposit with and borrows funds from its parent, Brookfield Asset Management Inc. ("Brookfield") at market interest rates. These deposits are available on demand and are used by the company to fund its cash requirements. Deposits receivable are classified as loans and receivable.

### (E) Investments

Securities classified as available-for-sale financial instruments and are recorded at fair value, with changes in value recorded in other comprehensive income. The cumulative change in the fair value of an available-for-sale security previously recognized in other comprehensive income are reclassified to net income when the security is sold or if there is a significant or prolonged decline in fair value.

The company accounts for its investments in Brookfield Residential Properties Inc. ("Brookfield Residential Properties") and Norbord Inc. ("Norbord") as available-for-sale securities with dividends recognized in net income on the record date.

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Investments in associates are accounted for using the equity method of accounting. Investments in associates are initially recognized at cost. If the cost of the associate is lower than the proportionate share of the investment's underlying fair value, the company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the associate is in excess of the company's proportionate share of the underlying fair value, goodwill relating to the associate is included in the carrying amount of the investment. Subsequent to initial recognition, the carrying value of the company's interest in an investee is adjusted for the company's share of comprehensive income and distributions of the investee. The carrying value of investments is assessed for impairment at each balance sheet date. Impairment losses on equity accounted investments may be subsequently reversed.

The company accounts for its investments in BPY I L.P., BPY II L.P. (and previously Brookfield Europe L.P.), as associates and accordingly utilizes the equity method of accounting.

#### **(F) Retractable Preferred Shares**

The retractable preferred shares are retractable at the option of the holder, and accordingly are liabilities for accounting purposes. They are classified as other financial liabilities and thus are recorded at amortized cost.

#### **(G) Dividend and Interest Income**

Dividends from the company's available-for-sale securities are recognized in net income on the record date. Interest income on the company's deposits receivable is recognized in net income when earned.

#### **(H) Foreign Currency Translation**

Foreign currency denominated monetary assets and liabilities of the company are translated at the rate of exchange prevailing at the period end and revenues and expenses at average rates during the period. Gains and losses on translation of these items are included in net income. Foreign currency gains and losses on the company's investments in associates are included in other comprehensive income, which is a separate component of equity.

#### **(I) Critical Judgements and Estimates**

The preparation of financial statements in conformity with IFRS requires management to make critical judgements, 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 reported period. Significant estimates are required in the determination of cash flows and probabilities in assessing net recoverable amounts and net realizable values; assessing objective evidence of impairment of equity accounted investments in BPY I L.P., BPY II L.P., tax and other provisions; and fair values. Critical judgments also include the determination of the level of influence the company exercises over its investments when determining the appropriate basis of accounting for its investments.

#### **(J) Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized in equity. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

#### **(K) Related Party Transactions**

In the normal course of operations, the company enters into transactions with related parties at market terms, which are measured at their exchange value.

### 3. DEPOSITS RECEIVABLE

Deposits receivable include the company's cash balances, as well as funds receivable from companies under common control, net of funds due to (from) the same parties, where a legal right of offset exists.

As at December 31, 2014, the balance included receivables of \$861 million (December 31, 2013 – \$753 million) denominated in Canadian dollars and payables of \$262 million (December 31, 2013 – \$311 million) denominated in U.S. dollars.

The fair value of the deposits receivable approximated their carrying value as at December 31, 2014 and December 31, 2013.

### 4. SECURITIES

The carrying value of the securities portfolio of preferred shares as at December 31, 2014 was \$40 million (2013 - \$44 million).

The company measures its \$40 million securities (December 31, 2013 – \$44 million) at estimated fair values categorized as Level 2, whereby the fair value measurements are determined using observable market-based inputs such as a liquidity premium and dividend yield on securities with similar characteristics. There are no securities categorized as level 1 or level 3 for both December 31, 2014 and 2013.

### 5. INVESTMENTS

Investments consist of available-for-sale securities and equity accounted investments.

Available-for-sale securities are recorded at fair value, with changes in value recorded in other comprehensive income. Equity accounted associates are originally recorded at cost and are adjusted for the company's proportionate share of equity accounted comprehensive income and dividends received. The following table summarizes the company's investments at December 31, 2014 and 2013:

| (US\$ millions, except %)              | Accounting<br>Methodology | Ownership<br>shares/ownership % |            | Carrying Value |          |
|----------------------------------------|---------------------------|---------------------------------|------------|----------------|----------|
|                                        |                           | 2014                            | 2013       | 2014           | 2013     |
|                                        |                           |                                 |            |                |          |
| Securities                             |                           |                                 |            |                |          |
| Brookfield Residential Properties Inc. | Available-for-sale        | 13.7 / 12%                      | 13.7 / 12% | \$ 329         | \$ 331   |
| Norbord Inc                            | Available-for-sale        | 4.8 / 9%                        | 4.8 / 9%   | 107            | 153      |
|                                        |                           |                                 |            | 436            | 484      |
| Brookfield Property Partners L.P.      | Associate <sup>1</sup>    | n/a / 9%                        | n/a / 12%  | 1,564          | 1,350    |
| Western Forest Product Inc.            | N/A                       | —                               | 96.0 / 25% | —              | 88       |
|                                        |                           |                                 |            | 1,564          | 1,438    |
| Total                                  |                           |                                 |            | \$ 2,000       | \$ 1,922 |

(1) Indirectly held through two equity accounted associates, BPY I L.P. and BPY II L.P., which account for the BPY units as available-for-sale securities

Through a series of transactions, the company disposed of its investment in Western during 2013 and 2014. The company recorded a realized gain of \$91 million in 2014 as part of this disposition. Realized and unrealized disposition gains in the prior year included \$118 million of gains on disposition of Norbord, Western and Western Warrants.

The company previously accounted for its investment in Norbord using the equity method of accounting. The company previously considered that it exercised significant influence over Norbord within the context of the Brookfield group until its holdings were diluted due to equity issuances at Norbord during 2013 when Norbord completed an equity issuance, decreasing its proportionate common share ownership from 11% to 9%. In connection with this dilution, the company determined that it no longer exercises significant influence over Norbord and accordingly accounts for Norbord as an available-for-sale financial asset, as well as recognized an \$87 million gain on the revaluation of its interest.

The following table presents the gross assets and liabilities of the company's investments in associates:

| (US\$ millions) | December 31, 2014 |                    |                     |                         | December 31, 2013 |                    |                     |                         |
|-----------------|-------------------|--------------------|---------------------|-------------------------|-------------------|--------------------|---------------------|-------------------------|
|                 | Current Assets    | Non-current Assets | Current Liabilities | Non-current Liabilities | Current Assets    | Non-current Assets | Current Liabilities | Non-current Liabilities |
| BPY I L.P.      | \$ —              | \$ 4,027           | \$ —                | \$ —                    | \$ —              | \$ 3,283           | \$ —                | \$ —                    |
| BPY II L.P.     | —                 | 3,934              | —                   | —                       | —                 | 3,357              | —                   | —                       |
| Western         | —                 | —                  | —                   | —                       | 230               | 401                | 92                  | 179                     |
|                 | \$ —              | \$ 7,961           | \$ —                | \$ —                    | \$ 230            | \$ 7,041           | \$ 92               | \$ 179                  |

The following table presents the revenue and net income of the company's investments in associates:

| (US\$ millions)   | Year ended<br>December 31, 2014 |            |                     | Year ended<br>December 31, 2013 |                   |                            |
|-------------------|---------------------------------|------------|---------------------|---------------------------------|-------------------|----------------------------|
|                   | Revenue                         | Net Income | Share of Net Income | Revenue                         | Net Income (Loss) | Share of Net Income (Loss) |
| BPY I L.P.        | \$ 175                          | \$ 175     | \$ 15               | \$ 110                          | \$ 110            | \$ 10                      |
| BPY II L.P.       | 179                             | 179        | 50                  | 112                             | 112               | 31                         |
| Western           | —                               | —          | —                   | 950                             | 102               | 46                         |
| Brookfield Europe | —                               | —          | —                   | 18                              | 70                | 25                         |
| Total             | \$ 354                          | \$ 354     | \$ 65               | \$ 1,190                        | \$ 394            | \$ 112                     |

## 6. RETRACTABLE PREFERRED SHARES

The company's Authorized Share Capital includes two classes of retractable preferred shares:

- (i) unlimited Class 1 Senior Preferred shares issuable in series; and
- (ii) unlimited Class 1 Junior Preferred shares issuable in series.

| (US\$ millions, except number of shares)                                 | December 31<br>2014 | December 31<br>2013 |
|--------------------------------------------------------------------------|---------------------|---------------------|
| 5,986,595 Class 1 Senior Preferred Shares, Series A (2013 – 5,987,195)   | \$ 129              | \$ 141              |
| 17,999,718 Class 1 Junior Preferred Shares, Series A (2013 – 17,999,718) | 558                 | 558                 |
| 17,200,000 Class 1 Junior Preferred Shares, Series B (2013 – 17,200,000) | 370                 | 405                 |
|                                                                          | \$ 1,057            | \$ 1,104            |

The retractable preferred shares are retractable at the option of the holder and, accordingly, are liabilities for accounting purposes.

The following rights and privileges apply to the outstanding Class 1 Senior Preferred shares:

- (i) entitlement to cumulative quarterly dividends calculated on the issue price of C\$25.00 per share at a fixed rate of 4.70% per annum; and
- (ii) in the case of the Senior Preferred shares, Series A, redeemable at the option of the company or the holder at C\$25.00 per share plus accrued and unpaid dividends thereon.

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The following rights and privileges apply to the outstanding Class 1 Junior Preferred Series A shares:

- (i) entitlement to non-cumulative quarterly dividends calculated on the issue price of \$31.00 per share at 4%, as and when declared by the Board of Directors of the company; and
- (ii) redeemable at the option of the company or the holder at any time at \$31.00 per share plus declared and unpaid dividends thereon.

The following rights and privileges apply to the outstanding Class 1 Junior Preferred Series B shares:

- (i) entitlement to cumulative quarterly dividends calculated on the issue price of C\$25.00 per share at 4%, as and when declared by the Board of Directors of the company; and
- (ii) redeemable at the option of the company or the holder at any time at C\$25.00 per share plus declared and unpaid dividends thereon.

The dividend payments on the preferred shares of \$29 million (2013 – \$29 million) are classified as interest expense.

## 7. EQUITY

The company's authorized share capital includes an unlimited number of common shares.

The common shares of the company are redeemable at the option of the holder for 95% of the net asset value at the time of redemption. There were 49,847,899 common shares outstanding as at December 31, 2014 (December 31, 2013 – 49,847,899).

## 8. INCOME TAXES

Brookfield Investments 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 is generally subject to a tax at 33 1/3% under Part IV of the Act on taxable dividends received. This tax is fully refundable upon payment of sufficient dividends.

The company's deferred tax liability relates primarily to temporary differences in subsidiary companies that are not mutual fund corporations. These temporary differences are principally comprised of differences between the carrying amount and the tax basis of share investments and loans.

The effective tax rate of 14% differs from the statutory rate of 26.5% due to the non-recognition of certain temporary differences due to its mutual fund corporation status and non-taxable/non-deductible items including dividends, gains and losses related to sales transactions and foreign exchange translation. The major components of income tax expense (recovery) include the following:

| <i>(US\$ millions)</i>            | <b>December 31<br/>2014</b> | December 31<br>2013 |
|-----------------------------------|-----------------------------|---------------------|
| Total current income tax expense  | <b>\$ 9</b>                 | \$ —                |
| Total deferred income tax expense | <b>8</b>                    | 17                  |
| Total income tax expense          | <b>\$ 17</b>                | \$ 17               |



|                                                             | December 31<br>2014 | December 31<br>2013 |
|-------------------------------------------------------------|---------------------|---------------------|
| (US\$ millions)                                             |                     |                     |
| Statutory income tax rate                                   | 27%                 | 27%                 |
| Tax receivable at statutory rate                            | \$ 32               | \$ 62               |
| (Reductions) increase in income tax expense resulting from: |                     |                     |
| Income not subject to tax                                   | (30)                | (60)                |
| Non-taxable dividends                                       | (4)                 | (5)                 |
| Non-deductible expenses                                     | 8                   | 8                   |
| FX losses                                                   | 8                   | —                   |
| Difference in tax rates                                     | —                   | 8                   |
| Other                                                       | 3                   | 4                   |
| Tax expense recorded                                        | \$ 17               | \$ 17               |

Deferred income tax liabilities as at December 31, 2014 and December 31, 2013 relate to the following:

|                                  | December 31<br>2014 | December 31<br>2013 |
|----------------------------------|---------------------|---------------------|
| (US\$ millions)                  |                     |                     |
| Non-capital losses               | \$ —                | \$ —                |
| Difference in basis              | (82)                | (45)                |
| Total net deferred tax liability | \$ (82)             | \$ (45)             |
| Deferred income tax asset        | \$ —                | \$ —                |
| Deferred income tax liability    | (82)                | (45)                |
| Total net deferred tax liability | \$ (82)             | \$ (45)             |

The following table details the unrecognized deferred tax assets which do not expire:

|                 | December 31<br>2014 | December 31<br>2013 |
|-----------------|---------------------|---------------------|
| (US\$ millions) |                     |                     |
|                 | \$ 4                | \$ 10               |
|                 | \$ 4                | \$ 10               |

The sources of deferred tax balances and movements are as follows:

|                            | Deferred tax asset related to<br>difference in tax and book<br>basis, net |
|----------------------------|---------------------------------------------------------------------------|
| (US\$ millions)            |                                                                           |
| Recognized in              |                                                                           |
| December 31, 2013          | \$ (45)                                                                   |
| Income                     | (8)                                                                       |
| Other comprehensive income | (29)                                                                      |
| <b>December 31, 2014</b>   | <b>\$ (82)</b>                                                            |

|                            | Deferred tax related to non-<br>capital losses | Deferred tax asset related<br>to difference in tax and<br>book basis, net | Total   |
|----------------------------|------------------------------------------------|---------------------------------------------------------------------------|---------|
| (US\$ millions)            |                                                |                                                                           |         |
| Recognized in              |                                                |                                                                           |         |
| December 31, 2012          | \$ 5                                           | \$ (63)                                                                   | \$ (58) |
| Income                     | (8)                                            | (9)                                                                       | (17)    |
| Other comprehensive income | —                                              | 29                                                                        | 29      |
| Other                      | 3                                              | (2)                                                                       | 1       |
| December 31, 2013          | —                                              | (45)                                                                      | (45)    |

The company has unrecognized capital losses of \$19 million (2013 – \$81 million).

## 9. RISK MANAGEMENT

The company's investments expose it to a variety of market risks, including interest rate risk, foreign exchange risk, equity risk and liquidity risk.

### *Market Risk*

Market risk arises from changes in market factors such as interest rates, foreign exchange rates, and equity prices. The company is exposed to market risk through its securities and long-term investments. The following is a description of these risks and how management evaluates and monitors the exposure to them.

### *Interest Rate Risk*

Interest rate risk is the risk of loss due to changes in interest rates, including changes in the risk-free rate and credit spreads. The company is exposed to interest rate risk through its investments in floating rate securities and loans receivable.

Based on the company's net floating interest rate position, a 50 basis point increase (decrease) in interest rates across all currencies and maturities would increase (decrease) the company's net income for the year ended December 31, 2014 by approximately \$3.2 million (2013 – \$2.5 million) before tax.

### *Foreign Exchange Risk*

Foreign exchange risk is the risk of variability due to changes in spot and forward rates, and the volatility of currency exchange rates. The company is exposed to currency risk in respect of foreign denominated securities and deposits payable.

The company is subject to foreign currency risk on the distributions resulting from investments in foreign denominated securities and loans receivable. The company mitigates the adverse effects of changes in the foreign currency by borrowing and issuing preferred shares denominated in foreign currencies.

A one per cent increase in the U.S. dollar against the Canadian dollar in which the company operated would decrease the company's net income by approximately \$4.2 million (2013 – decrease of \$2.2 million) before tax.

### *Equity Risk*

Equity risk is the risk of loss due to movements in equity prices. The company's primary exposure to equity risk is through its investments in securities and long-term investments in Brookfield Residential and Norbord. A one percent change in the market value would change the fair value of the company's equity investments recorded in other comprehensive income by \$11 million (2013 – \$9 million), before tax.

### *Liquidity Risk*

The company generates sufficient cash flow from operations to fund its interest expense obligations. In addition, The following table presents the contractual obligations of the company by payment periods:

| (US\$ millions)                             | Payments Due by Period |                       |                |                |                  |
|---------------------------------------------|------------------------|-----------------------|----------------|----------------|------------------|
|                                             | Total                  | Less Than<br>One Year | 2 - 3<br>Years | 4 - 5<br>Years | After 5<br>Years |
| Retractable preferred shares <sup>(1)</sup> |                        |                       |                |                |                  |
| Senior                                      | \$ 129                 | \$ 129                | \$ —           | \$ —           | \$ —             |
| Junior                                      | 928                    | 928                   | —              | —              | —                |

(1) Retractable at the option of the holder, as described above in Note 7

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## 10. RELATED PARTY TRANSACTIONS

A significant portion of the company's securities and financing transactions are conducted with Brookfield. Loans receivable and payable includes funds on deposit with and borrowed from Brookfield, which bear interest at the prime rate on Canadian dollar deposits, at LIBOR on U.S. dollar denominated balances and are available on demand. Dividend and interest income during the year from related party securities and deposits totalled \$24 million (2013 – \$27 million). Transactions conducted with related parties are recorded at the exchange amounts.

On April 12, 2013 the company exchanged its 11% common share interest in Brookfield Office Properties Inc., as well as the company's portfolio of preferred shares of Brookfield Office Properties for a 11% economic interest in Brookfield Property Partners L.P. ("BPY"), a newly-created company which owns substantially all of Brookfield's commercial property investments. In addition, the company's 36% limited partnership interest in BPY Holdings L.P. sold its interest in Canary Wharf Group plc, as well as certain other European assets, to BPY and received as consideration an indirect 9.1% economic interest in BPY's business. The transactions were measured at fair value and the company recognized a \$113 million gain in equity as a result of the difference between the carrying value of the assets exchanged compared to the company's proportionate share of Brookfield Property Partners equity received.

## 11. CAPITAL MANAGEMENT

The company's objective is to provide its shareholders with stable income returns and capital appreciation. The company's assets are financed primarily with common shares and \$1,057 million of retractable preferred shares.

The company maintains a portfolio of securities and has funds on deposit, which with varying degrees of timing, can be liquidated, and utilized to fund cash requirements. The company's sole common shareholder holds, directly and indirectly, \$1,021 million (December 31, 2013 – \$1,064 million) of the company's retractable preferred shares. The remaining \$36 million (December 31, 2013 – \$40 million) of retractable preferred shares are held by third parties, and satisfaction of any retractions can be made through the company's general cash resources or through proceeds from the sale of assets.

The authorized share capital of the company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2014, there were 49,847,899 common shares, 5,986,595 Class 1 Series A Senior Preferred Shares, 17,999,718 Class 1 Series A Junior Preferred Shares and 17,200,000 Class 1 Series B Junior Preferred Shares issued and outstanding.

## 12. OTHER INFORMATION

(i) Cash interest paid for the year ended December 31, 2014 was \$29 million (2013 – \$29 million).

## 13. SUBSEQUENT EVENT

On February 27, 2015, the company declared and paid to the holders of its common shares a dividend in aggregate amount of C\$65,378,300, or C\$1.31 per common share.

# CORPORATE INFORMATION

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## HEAD OFFICE

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## TRANSFER AGENT

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E-mail: [inquiries@canstockta.com](mailto:inquiries@canstockta.com)

## YEAR END

December 31

## STOCK EXCHANGE LISTING

The Class 1 Senior Preferred Shares, Series A, of Brookfield Investments Corporation are listed on the TSX Venture Exchange under the symbol **BRN.PR.A**

## DIRECTORS

### **John P. Barratt<sup>1</sup>**

Corporate Director

### **Howard Driman<sup>1</sup>**

Director of Finance

UIA Federations Canada

### **James R. Kelly<sup>1</sup>**

Corporate Director

### **Edward C. Kress**

Corporate Director

## OFFICERS

### **Edward C. Kress**

Chairman and President

### **Derek Gorgi**

Vice-President and Chief Financial Officer

### **C. Leslie Yuen**

Vice-President and Controller

### **Loretta M. Corso**

Vice-President and Secretary

1. Member of the Audit Committee

