

PARTNERS | VALUE FUND
INC.

2013 Annual Report

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Forward-Looking Information

This annual report contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Partners Value Fund Inc. (the “Company”) and its affiliates, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could”.

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

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements and information include, but are not limited to: the financial performance of Brookfield Asset Management Inc., the impact or unanticipated impact of general economic, political and market factors; the behavior of financial markets, including fluctuations in interest and foreign exchanges rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation; changes in tax laws, catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in the Company’s documents filed with the securities regulators in Canada.

The Company cautions that the foregoing list of important factors that may affect future results is not exhaustive. When relying on the Company’s forward-looking statements and information, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements and information, whether written or oral, that may be as a result of new information, future events or otherwise.

Cautionary Statement Regarding Use of Non-IFRS Accounting Measures

This annual report makes reference to net income for common shareholders and net book value per common share, and provides a full reconciliation between these measures and net income and total assets, respectively, which the Company considers to be the most directly comparable measures calculated in accordance with IFRS.

Statement of Financial Position

The information in the following table has been extracted from the consolidated financial statements of the Company.

<i>As at December 31</i> <i>(Thousands, except per share amounts)</i>	2013		2012	
Assets				
Cash and cash equivalents	\$	5,102	\$	25,882
Accounts receivable and other		2,083		1,269
Brookfield Asset Management Inc. ¹		2,310,897		2,033,703
Other securities		354,180		159,706
	\$	2,672,262	\$	2,220,560
Liabilities and Shareholders' Equity				
Accounts payable and other	\$	5,196	\$	277
Retractable preferred shares ²		537,531		488,139
Deferred taxes ³		247,980		197,398
		790,707		685,814
Shareholders' Equity				
Common equity		1,881,555		1,534,746
	\$	2,672,262	\$	2,220,560
Net book value per common share^{4,5}	\$	25.36	\$	20.68

¹ The investment in Brookfield Asset Management Inc. consists of 56 million Brookfield Class A Shares at a bid price of \$41.10 per Class A Share as at December 31, 2013 (December 31, 2012 - \$36.17).

² Represents \$542 million of retractable preferred shares less \$5 million of unamortized issue costs. (December 31, 2012 - \$492 million less \$4 million).

³ The deferred tax liability represents the potential future income tax liability of the Company recorded for accounting purposes based on the difference between the carrying values of the Company's assets and liabilities and their respective tax values, as well as giving effect to estimated capital and non-capital losses.

⁴ As at December 31, 2013, there were 74,206,510 (December 31, 2012 - 74,206,510) voting and non-voting common shares of the Company issued and outstanding on a fully diluted basis.

⁵ Net book value per common share is a non-IFRS measure.

Change in Net Book Value

<i>For the years ended December 31</i> <i>(Thousands, except per share amounts)</i>	2013		2012	
	Total	Per Share	Total	Per Share
Net book value, beginning of year ¹	\$ 1,534,746	\$ 20.68	\$ 1,102,815	\$ 14.86
Net income ²	32,554	0.44	19,120	0.26
Other comprehensive income ²	314,255	4.24	412,811	5.56
Net book value, end of year ^{1,3}	\$ 1,881,555	\$ 25.36	\$ 1,534,746	\$ 20.68

¹ Net book value per common share is non-IFRS measure.

² The weighted average number of common shares outstanding during the year ended December 31, 2013 was 74,206,510 (December 31, 2012 - 74,206,510).

³ As at December 31, 2013, there were 74,206,510 (December 31, 2012 - 74,206,510) voting and non-voting common shares of the Company issued and outstanding on a fully diluted basis.

Management's Discussion and Analysis

OVERVIEW

Partners Value Fund Inc. (the "Company"), formerly BAM Investments Corp., is a leveraged investment company whose principal investment is a direct and indirect ownership interest in 56 million Class A Limited Voting Shares ("Class A Shares") of Brookfield Asset Management Inc. ("Brookfield").

The Company's objective is to provide its common shareholders with capital appreciation as opposed to income returns. Investment income includes dividends from its investment in Brookfield Class A Shares as well as its other securities portfolio which is dedicated to paying dividends on its financing obligations.

The Company's investment in Brookfield is owned directly and indirectly through Partners Value Split Corp. ("Partners Value Split"), formerly BAM Split Corp., a public subsidiary in which the Company owns 100% of the common equity. Partners Value Split has publicly listed retractable preferred shares of which \$492 million were outstanding at December 31, 2013.

The Company also holds a portfolio of other securities including: a 47% interest in the New Horizons Income Fund ("New Horizons"); a publicly listed fund which invests in high yield securities; a 100% interest in Global Champions Split Corp. ("Global Champions"), which owns a diversified investment portfolio of large capitalization companies; and investments in Brookfield Infrastructure Partners and Brookfield Property Partners limited partnership units.

Additional information on the Company, Partners Value Split and Global Champions including the Company's annual information form, is available on SEDAR's web site at www.sedar.com.

RESULTS OF OPERATIONS

Overview

The Company recorded income from operations of \$21 million for the year ended December 31, 2013 compared to \$8 million in the prior year. The increase in income from operations was primarily driven by increases in dividend income from its Brookfield Class A Shares and its other securities portfolio in addition to gains associated with the Global Champions portfolio.

The Company's net book value increased by \$4.68 per share to \$25.36 per share at December 31, 2013, driven by increases in the fair value of the Company's investment portfolio, of which \$0.44 was recorded in net income and the balance of \$4.24 in other comprehensive income.

Net income was \$33 million (\$0.44 per common share) for the year ended December 31, 2013 compared to \$19 million (\$0.26 per common share) in the prior year. The increase in net income was primarily the result of increased dividend income and valuation gains associated with the Company's other securities investment portfolio.

The following table reconciles the Company's income from operations and net income for the years ended December 31:

<i>(Thousands)</i>	2013	2012	Increase/ (Decrease)
Investment Income			
Dividends and interest	\$ 43,451	\$ 34,871	\$ 8,580
Other investment income	6,277	—	6,277
	49,728	34,871	14,857
Less:			
Operating expenses	1,198	705	493
Retractable preferred share dividends	27,595	25,977	1,618
Income from operations ¹	20,935	8,189	12,746
Adjust for other items:			
Equity accounted income	16,895	14,522	2,373
Amortization of deferred financing costs	(1,687)	(1,421)	(266)
Income tax expense	(3,589)	(2,170)	(1,419)
Net income	\$ 32,554	\$ 19,120	\$ 13,434

¹ *Income from operations is a non-IFRS measure used by the Company to better reflect the operating performance during the year. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the Company's equity accounted investment.*

Investment Income

Investment income for the years ended December 31 consists of the following:

<i>(Thousands)</i>	2013	2012
Dividends:		
Brookfield Asset Management Inc.	\$ 33,893	\$ 30,769
Other securities	9,333	8,200
Interest and other investment income	6,502	782
	<u>\$ 49,728</u>	<u>\$ 39,751</u>

The Company received dividend income of \$34 million (2012 – \$31 million) from its investment in Brookfield. The increase in Brookfield dividend income was driven by an increase in Brookfield's dividend rate as well as an increase in the Canadian dollar value of the dividends, which are declared in U.S. dollars.

Interest and other investment income includes mark-to-market and realized and unrealized foreign exchange gains incurred on our Global Champions portfolio which was not held by the Company in the prior year.

Retractable Preferred Share Dividends

The Company paid \$28 million (2012 – \$26 million) of dividends on the retractable preferred shares during the year ended December 31, 2013. The increase in retractable preferred share dividends is driven by the additional dividends paid on the Global Champions preferred shares which did not exist in the prior year.

Equity Accounted Investments

The Company recorded \$17 million (2012 – \$15 million) of equity accounted income during the year representing its proportionate share of the net income earned by New Horizons. This consisted of \$5 million (2012 – \$5 million) of distributions received, and a \$12 million (2012 – \$10 million) unrealized gain on the mark-to-market of the fund's investment portfolio.

Amortization of Financing Costs

The amortization of deferred financing costs associated with preferred shares issued by Partners Value Split and Global Champions resulted in a charge against income of \$2 million (2012 – \$1 million).

Income Taxes

The Company recorded an income tax expense of \$4 million (2012 – \$2 million) during the year ended December 31, 2013. The increased expense in the current year is primarily the result of the increase in investment income from the Company's other securities portfolio.

FINANCIAL POSITION

The Company's total assets totalled \$2,672 million at December 31, 2013, versus \$2,220 million at the end of the prior year, and consist primarily of its \$2,311 million investment in 56 million Brookfield Class A shares (2012 - \$2,034 million). The market price of a Brookfield Class A share increased from \$36.17 per share at December 31, 2012 to \$41.10 at December 31, 2013.

Investment Portfolio

<i>As at December 31</i> <i>(Thousands)</i>	Number of Shares		Fair Value	
	2013	2012	2013	2012
Brookfield Asset Management Inc.	56,226	56,226	\$ 2,310,897	\$ 2,033,703
Other securities:				
Brookfield Infrastructure Partners L.P.	2,219	2,219	92,432	77,356
Brookfield Property Partners L.P.	3,613	—	76,606	—
Brookfield New Horizons Income Fund	6,100	6,100	77,340	65,325
Global Champions portfolio ¹	various	various	107,802	17,025
			<u>\$ 354,180</u>	<u>\$ 159,706</u>

¹ The securities listed in the Global Champions portfolio as of December 31, 2012 were held directly by the Company and transferred into Global Champions in March 2013, following its launch.

Brookfield Asset Management Inc.

The Company has classified the Brookfield Class A Shares as available-for-sale financial instruments, and accordingly recognizes changes in the fair value of these shares through other comprehensive income.

Brookfield is a global alternative asset manager focused on real estate, infrastructure, power and private equity with over \$175 billion of assets under management and is inter-listed on the New York, Toronto and NYSE Euronext stock exchanges. Further information on Brookfield can be found on their web site at www.brookfield.com.

Other Securities

The Company holds an investment in Brookfield Infrastructure Partners consisting of 2.2 million (December 31, 2012 – 2.2 million) limited partnership units with a fair value of \$92 million at December 31, 2013 (December 31, 2012 – \$77). The Company has classified its investment in the Brookfield Infrastructure Partners units as available-for-sale financial instruments and, accordingly, changes in their fair value are recorded in other comprehensive income.

Brookfield Infrastructure Partners owns and operates utility, transport and energy businesses in North and South America, Australasia, and Europe and is inter-listed on the New York and Toronto stock exchanges. Further information on Brookfield Infrastructure Partners can be found on their web site at www.brookfieldinfrastructure.com.

The Company has an investment in Brookfield Property Partners consisting of 3.6 million limited partnership units with a fair value of \$77 million at December 31, 2013 (December 31, 2012 - \$nil). Brookfield Property Partners was spun-off from Brookfield in April 2013. The Company has classified its investment in the Brookfield Property Partners units as available-for-sale financial instruments and, accordingly, changes in their fair value are recorded in other comprehensive income.

Brookfield Property Partners is a global commercial property company that owns, operates and invests in best-in-class office, retail, multifamily and industrial assets and is inter-listed on the New York and Toronto stock exchanges. Further information on Brookfield Property Partners can be found on their web site at www.brookfieldpropertypartners.com.

The Company holds an investment in New Horizons consisting of 6.1 million fund units (December 31, 2012 – 6.1 million) with fair value of \$77 million as at December 31, 2013 (December 31, 2012 – \$65 million). The Company exercises significant influence over the fund and accounts for the fund using the equity method. As such, the Company records its proportionate share of the investee's income as equity accounted income in the net income.

Also included in the other securities portfolio are the securities from the Company's investment in Global Champions, a public subsidiary which invests in a diversified portfolio of large capitalization companies and in which the Company owns 100% of the common equity. The fair value of these securities was \$108 million as at December 31, 2013. These investments are classified as fair value through profit and loss and, accordingly, changes in their fair value are recorded in net income.

Deferred Taxes

The deferred tax liability represents the potential tax liability based on the excess of the carrying value of the net assets over their respective tax values, less available loss carry forwards. The potential tax liability increased during the year primarily due to the increase in the fair value of the Company's investment portfolio, namely the Brookfield Class A Shares.

LIQUIDITY AND CAPITAL RESOURCES

The Company holds cash and cash equivalents totalling \$5 million and investments of \$2,665 million as at December 31, 2013 (December 31, 2012 – \$26 million and \$2,193 million). The Company has operating cash requirements for 2014 of \$25 million in scheduled dividend payments on its \$538 million of preferred shares issued by Partners Value Split and Global Champions which are less than the regular distributions expected to be received on Brookfield and other securities held by the Company. The Company also has \$125 million of preferred shares maturing in July 2014. The Company believes it has sufficient liquid assets, operating cash flow and financing alternatives to meet its obligations.

Retractable Preferred Shares

Retractable preferred shares issued by Partners Value Split and Global Champions are comprised of the following:

As at December 31 (Thousands, except shares outstanding)		Latest Redemption Date	2013		2012
Partners Value Split					
2,055,420	4.95% Class AA, Series I	March 25, 2016	\$ 51,386	\$	51,430
7,636,800	4.35% Class AA, Series III	January 10, 2019	190,920		190,920
4,997,850	7.25% Class AA, Series IV	July 9, 2014	124,946		125,000
4,999,000	4.85% Class AA, Series V	December 10, 2017	124,975		125,000
Global Champions					
2,000,000	4.00% Class A, Series I	July 31, 2019	50,000		—
			542,227		492,350
Deferred financing costs ¹			(4,696)		(4,211)
			\$ 537,531	\$	488,139

¹ Deferred financing costs are amortized over the term of the borrowing following the effective interest method.

Shareholders' equity

As at December 31, 2013 shareholders' equity consisted of 74,206,510 voting and non-voting common shares with a book value of \$1,882 million compared to \$1,535 million at the end of 2012. The increase in book value is primarily the result of an increase in fair value of the Class A Shares of Brookfield, whose share price increased from \$36.17 at December 31, 2012 to \$41.10 at December 31, 2013.

BUSINESS ENVIRONMENT AND RISKS

The Company's activities expose it to a variety of financial risks, including market risk (i.e. currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The following are risk factors relating to an investment in the common shares of the Company:

Fluctuations in Value of Investments

The value of common shares may vary according to the value of the Class A Shares and other securities owned by the Company. The value of these investments may be influenced by factors not within the control of the Company, including the financial performance of Brookfield and other investees, interest rates and other financial market conditions. As a result, the net asset value of the Company may vary from time to time.

The future value of the common shares will be largely dependent on the value of the Class A Shares. A material adverse change in the business, financial conditions or results of operations of Brookfield and other investees of the Company will have a material adverse effect on the common shares of the Company. In addition, the Company may incur additional financial leverage in order to acquire, directly or indirectly, additional securities issued by Brookfield, which would increase both the financial leverage of the Company and the dependency of the future value of the common shares on the value of the Class A Shares.

Foreign Currency Exposure

The Company's investment in Brookfield and certain of its other investments are functionally United States dollar investments. Accordingly, the value of these assets may vary from time to time with fluctuations in the exchange rate between Canadian and United States dollars. In addition, these investments pay distributions and interest in United States dollars. Strengthening of the Canadian dollar relative to the United States dollar could decrease the amount of cash available to the Company.

Leverage

The Company's assets are financed in part with the retractable preferred shares issued by Partners Value Split and Global Champions. This results in financial leverage that will increase the sensitivity of the value of the common shares to changes in the values of the assets owned by the Company. A decrease in the value of the Company's investments may have a material adverse effect on the Company's business and financial conditions.

Liquidity

The Company's liquidity requirements are typically limited to funding its interest and dividend obligations on outstanding financial obligations.

Holders of the retractable preferred shares issued by either Partners Value Split or Global Champions have the ability to retract their shares. The Class AA, Series I Preferred shares are retractable for cash, whereas Partners Value Split, Global Champions, or the Company has the right to issue debentures, as opposed to cash, to settle retractions of the Class AA, Series III; Class AA, Series IV; Class AA, Series V; and Class A Series I preferred shares, respectively.

The Company maintains financial assets and credit facilities to fund liquidity requirements in the normal course, in addition to its investment in Brookfield. The Company's policy is to hold the Brookfield Class A Shares and not engage in trading, however shares are available to be sold to fund retractions and redemptions of preferred shares or common shares. The Company's ability to sell a substantial portion of the Brookfield Class A Shares may be limited by resale restrictions under applicable securities laws that will affect when or to whom the Brookfield Class A Shares may be sold. Accordingly, if and when the Company is required to sell Brookfield Class A Shares, the liquidity of such shares may be limited. This could affect the time it takes to sell the Brookfield Class A Shares and the price obtained by the Company for the Brookfield Class A Shares sold.

No Ownership Interest

A direct investment in common shares does not constitute a direct investment in the Brookfield Class A Shares or other securities held by the Company. Holders of common shares do not own the Brookfield Class A Shares or other securities held by the Company or have any voting rights in respect of such securities.

Contractual Obligations

The Company's contractual obligations as of December 31, 2013 are as follows:

(Thousands)	Total	Payment Due By Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
Retractable preferred shares					
Partners Value Split:					
Class AA, Series I ¹	\$ 51,386	\$ —	\$ 51,386	\$ —	\$ —
Class AA, Series III ²	190,920	—	—	—	190,920
Class AA, Series IV ³	124,946	124,946	—	—	—
Class AA, Series V ⁴	124,975	—	—	124,975	—
Global Champions:					
Class A, Series I ⁵	50,000	—	—	—	50,000
Dividend expense related to:					
Retractable preferred shares					
Partners Value Split:					
Class AA, Series I	\$ 5,945	\$ 2,543	\$ 3,402	\$ —	\$ —
Class AA, Series III	42,640	8,305	16,610	16,610	1,115
Class AA, Series IV	5,721	5,721	—	—	—
Class AA, Series V	23,028	6,061	12,122	4,845	—
Global Champions:					
Class A, Series I	11,170	2,000	4,000	4,000	1,170

¹ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in cash.

² Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2019.

³ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2014.

⁴ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2017.

⁵ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2019.

SUMMARY OF FINANCIAL INFORMATION

The following table summarizes selected consolidated financial information of the Company for the years ended December 31, 2013, 2012 and 2011:

(Thousands, except per share amounts)	2013	2012	2011
Income from operations ¹	\$ 20,935	\$ 8,189	\$ 8,034
Net income	32,554	19,120	2,085
Net income per common share	0.44	0.26	0.03
Total assets	2,672,262	2,220,560	1,722,646
Total long-term liabilities	785,511	685,537	619,309

¹ Income from operations is a non-IFRS measure used by the Company to better reflect the operating performance during the period. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the Company's equity accounted investment.

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

(Thousands, except per share amounts)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income from operations ^{1, 2}	\$ 11,026	\$ 2,339	\$ 2,651	\$ 4,919	\$ 2,418	\$ 2,234	\$ 2,108	\$ 1,429
Net income	15,480	3,151	5,156	8,767	5,089	4,828	3,658	5,545
Net income per common share	0.21	0.04	0.07	0.12	0.07	0.07	0.05	0.07

¹ Income from operations is a non-IFRS measure used by the Company to better reflect the operating performance during the period. The measure is defined as investment income less expenses, as shown on the Consolidated Statements of Operations, and then adjusted for cash distributions received from the Company's equity accounted investment.

² Comparative periods have been adjusted to conform with the current presentation.

Income from operations includes dividends and interest on the Company's investment portfolio, in addition to mark-to-market adjustments relating to the Global Champions portfolio, partially offset by operating costs primarily consisting of dividends paid on the retractable preferred shares. Income from operations fluctuates from changes in the U.S. dollar relative to the Canadian dollar on dividends earned on U.S. dollar and other foreign currencies investments in addition to changes in equity markets. Also included in income from operations are gains and losses on the disposition of investments. The variance in net income on the last eight quarters is primarily the result of mark-to-market adjustments on certain of the Company's investments and increases in the dividend income earned from its investments.

RELATED PARTY TRANSACTIONS

Brookfield provided management and financial services to the Company during 2013 and 2012 and recovered costs of \$40,000 to December 31, 2013 (December 31, 2012 – \$47,500) in respect of those services.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Adoption of accounting standards

Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the International Accounting Standards Board ("IASB") issued three standards: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), and IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), and amended two standards: IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). Each of the new and amended standards has an effective date for annual periods beginning on or after January 1, 2013.

IFRS 10 replaces IAS 27 and SIC-12, *Consolidation-Special Purpose Entities* ("SIC-12"). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns. IFRS 10 requires continuous reassessment of changes in an investor's power over the investee and changes in the investor's exposure or rights to variable returns. There was no impact as a result of the adoption of IFRS 10 on the Company's consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. There was no impact as a result of the adoption of IFRS 11 on the Company's consolidated financial statements.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in

IFRS 12 into their financial statements without early adopting of IFRS 12. There was no impact as a result of the adoption of IFRS 12 on the Company's consolidated financial statements.

Fair Value Measurements

In May 2011, the IASB issued IFRS 13, *Fair Value Measurements* ("IFRS 13"). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enables the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, and the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. There was no impact as a result of the adoption of IFRS 13 on the Company's consolidated financial statements.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. There was no significant impact as a result of the amendments to IAS 1 on the Company's consolidated financial statements.

Future Changes in Accounting Standards

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The IASB decided to defer the mandatory effective date of IFRS 9, leaving the mandatory effective date open pending the finalization of the impairment, classification and measurement requirements. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation* ("IAS 32") was amended to clarify certain aspects as a result of the application of offsetting requirements, namely focusing on the following four main areas: the interpretation of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. IAS 32 is effective for annual periods beginning on or after January 1, 2014. The Company has not yet determined the impact of IAS 32 on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS 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 future cash flows and probabilities in assessing net recoverable amounts and net realizable values; tax and other provisions; as well as fair values for disclosure purposes. In the normal course of operations, the Company may execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions and the sale of assets. The nature of substantially all of the indemnification undertakings precludes the possibility of making a reasonable estimate of the maximum potential amount that the Company could be required to pay to third parties as the agreements often do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Company has not made any payments under such indemnification agreements and guarantees.

DISCLOSURE CONTROLS AND PROCEDURES

We maintain appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The President and the Vice President, Finance of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in "National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings") as at December 31, 2013 and have concluded that the disclosure controls and procedures are operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We maintain appropriate internal controls over financial reporting (as defined in “National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings”) and the Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management has evaluated whether there were changes in our internal controls over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting and has determined that there have been no such changes.



Edward C. Kress

President

March 27, 2014

Management's Responsibility for Financial Statements

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 and objectivity. To fulfill this responsibility, the Company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board 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 audited the consolidated financial statements 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 on the following page.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the consolidated financial statements.

Toronto Canada
March 27, 2014



Edward C. Kress
President

Independent Auditor's Report

To the Shareholders of Partners Value Fund Inc. (formerly BAM Investments Corp.)

We have audited the accompanying consolidated financial statements of Partners Value Fund Inc., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, 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 Statement

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 audits 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 Partners Value Fund Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Toronto, Canada
March 27, 2014

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

As at December 31
(Thousands)

	Note	2013	2012
Assets			
Cash and cash equivalents		\$ 5,102	\$ 25,882
Accounts receivable and other		2,083	1,269
Brookfield Asset Management Inc.	4	2,310,897	2,033,703
Other securities	4	354,180	159,706
		\$ 2,672,262	\$ 2,220,560
Liabilities			
Accounts payable and other		\$ 5,196	\$ 277
Retractable preferred shares	5	537,531	488,139
Deferred taxes	8	247,980	197,398
		790,707	685,814
Shareholders' Equity			
Common equity	6	1,881,555	1,534,746
		\$ 2,672,262	\$ 2,220,560

See accompanying notes to financial statements.

On behalf of the Board



Frank N.C. Lochan
Director and Chairman



Edward C. Kress
Director and President

Consolidated Statements of Operations

For the years ended December 31

(Thousands, except per share amounts)

	Note	2013	2012
Investment Income			
Dividends, interest and other		\$ 49,728	\$ 34,871
		49,728	34,871
Expenses			
Operating		1,198	705
Retractable preferred share dividends		27,595	25,977
		28,793	26,682
		20,935	8,189
Equity accounted income	4	16,895	14,522
Amortization of deferred financing costs		(1,687)	(1,421)
Current tax expense	8	(1,123)	(508)
Deferred tax expense	8	(2,466)	(1,662)
Net income		\$ 32,554	\$ 19,120
Net income per common share (Note 7)		\$ 0.44	\$ 0.26

See accompanying notes to financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31

(Thousands, except per share amounts)

	2013	2012
Net income	\$ 32,554	\$ 19,120
Items that may be reclassified to net income:		
Unrealized gain on available-for-sale securities	360,631	475,956
Foreign exchange translation	1,740	—
Deferred income taxes	(48,116)	(63,145)
Other comprehensive income	314,255	412,811
Comprehensive income	\$ 346,809	\$ 431,931
Comprehensive income per common share	\$ 4.68	\$ 5.82

See accompanying notes to financial statements.

Consolidated Statements of Changes in Equity

<i>For the year ended December 31, 2013</i> <i>(Thousands)</i>	Note	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
Balance, beginning of year		\$ 79,450	\$ 1,433,855	\$ 21,441	\$ 1,534,746
Net income		—	—	32,554	32,554
Other comprehensive income		—	314,255	—	314,255
Balance, end of year	6	\$ 79,450	\$ 1,748,110	\$ 53,995	\$ 1,881,555

<i>For the year ended December 31, 2012</i> <i>(Thousands)</i>	Note	Common Shares	Accumulated Other Comprehensive Income	Retained Earnings	Common Equity
Balance, beginning of year		\$ 79,450	\$ 1,021,044	\$ 2,321	\$ 1,102,815
Net income		—	—	19,120	19,120
Other comprehensive income		—	412,811	—	412,811
Balance, end of year	6	\$ 79,450	\$ 1,433,855	\$ 21,441	\$ 1,534,746

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31
(Thousands)

		2013		2012
Cash flow from operating activities				
Net income	\$	32,554	\$	19,120
Add (deduct) non-cash items:				
Non-cash portion of equity accounted income		(12,015)		(9,642)
Net realized and unrealized gains on investments		(5,598)		—
Net unrealized foreign exchange gains		(1,155)		—
Amortization of deferred issue costs		1,687		1,421
Deferred tax expense		2,466		1,662
		17,939		12,561
Changes in working capital and foreign exchange		16		(269)
		17,955		12,292
Cash flow from (used in) investing activities				
Purchase of other securities		(90,736)		(17,314)
Sale of other securities		4,173		—
		(86,563)		(17,314)
Cash flow from (used in) financing activities				
Preferred shares issued		47,828		—
		47,828		—
Cash and cash equivalents				
Decrease during the year		(20,780)		(5,022)
Balance, beginning of year		25,882		30,904
Balance, end of year	\$	5,102	\$	25,882

See accompanying notes to financial statements.

Supplemental Cash Flow Information

For the years ended December 31
(Thousands)

		2013		2012
Cash interest and dividends received	\$	43,293	\$	39,751
Retractable preferred share dividends paid		(27,095)		(25,977)
Income taxes paid		(780)		(371)

Notes To The Consolidated Financial Statements

1. BUSINESS OPERATIONS

Partners Value Fund Inc. (the “Company”) is an investment holding company incorporated under the laws of the province of Ontario which owns a leveraged investment in Brookfield Asset Management Inc. (“Brookfield”). Brookfield provides management and administration services to the Company. The consolidated financial statements include the accounts of the Company’s wholly-owned subsidiaries, Partners Value Split Corp. (“Partners Value Split”) and Global Champions Split Corp. (“Global Champions”). The Company was formed by the articles of incorporation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the Company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (the “IASB”). The consolidated financial statements are prepared on a going concern basis.

These financial statements were authorized for issuance by the Board of Directors of the Company on March 27, 2014.

(b) Adoption of accounting standards

Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the IASB issued three standards: IFRS 10, *Consolidated Financial Statements* (“IFRS 10”), IFRS 11, *Joint Arrangements* (“IFRS 11”), and IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”), and amended two standards: IAS 27, *Separate Financial Statements* (“IAS 27”), and IAS 28, *Investments in Associates and Joint Ventures* (“IAS 28”). Each of the new and amended standards has an effective date for annual periods beginning on or after January 1, 2013.

IFRS 10 replaces IAS 27 and SIC–12, *Consolidation-Special Purpose Entities* (“SIC–12”). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC–12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee’s financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns. IFRS 10 requires continuous reassessment of changes in an investor’s power over the investee and changes in the investor’s exposure or rights to variable returns. There was no impact as a result of the adoption of IFRS 10 on the Company’s consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures* and SIC–13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. There was no impact as a result of the adoption of IFRS 11 on the Company’s consolidated financial statements.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity’s conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting of IFRS 12. There was no impact as a result of the adoption of IFRS 12 on the Company’s consolidated financial statements.

Fair Value Measurements

In May 2011, the IASB issued IFRS 13, *Fair Value Measurements* (“IFRS 13”). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information

be provided in the financial statements that enables the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, and the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. There was no impact as a result of the adoption of IFRS 13 on the Company's consolidated financial statements.

Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1"). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. There was no significant impact as a result of the amendments to IAS 1 on the Company's consolidated financial statements.

(c) Basis of presentation

Foreign currencies

The Company considers the Canadian dollar to be its functional currency as it is the currency of the primary economic environment in which the Company operates. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the end of the reporting period and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Revenues and expenses are translated at rates approximating the exchange rates in effect at the time of the transactions.

Income taxes

The Company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on unused income tax losses and temporary differences between the carrying amount and tax bases of assets and liabilities, when the benefit is more likely than not to be realized and measured using the tax rates and laws substantively enacted at the balance sheet date. The deferred tax liability is classified as non-current.

Cash and cash equivalents

Cash and cash equivalents are current assets that are recorded at amortized cost and include cash on deposit with financial institutions and demand deposits with related parties.

Accounts receivable and other, accounts payable and other

Accounts receivable and other and accounts payable and other balances represent current assets and liabilities. The balances are classified as loans and receivables or other financial liabilities and are recorded at amortized cost.

Investment in Brookfield and other securities

The Company accounts for its investment in Brookfield, Brookfield Infrastructure Partners and Brookfield Property Partners as available-for-sale financial instruments at fair value with changes in their fair value recorded in other comprehensive income.

The Company accounts for its investments in the Global Champions portfolio as fair value through profit and loss and, accordingly, recognizes changes in fair value in the consolidated statements of operations.

Equity accounted investment

The Company holds a 47% ownership interest in the New Horizons Income Fund ("New Horizons") which is recorded in other securities. The Company exercises significant influence over the investment and, as a result, uses the equity method of accounting for its investment in the fund. Under the equity method, the Company records its proportionate share of the investee's income in the consolidated statements of operations.

Revenue recognition

Dividend income is recognized on the ex-dividend date.

Preferred shares

The Company's preferred shares are measured at amortized cost.

Deferred issue costs

Deferred issue costs were incurred in connection with the issuance of the retractable preferred shares of Partners Value Split and Global Champions and are amortized using the effective interest rate method.

(d) Critical Judgments and Estimates

The preparation of financial statements requires the Company to make critical judgments, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the year. Actual results could differ from those estimates.

In making estimates and judgments, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgments have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the Company believes will materially affect the methodology or assumptions utilized in making these estimates and judgments in these financial statements.

The estimates and judgments used in determining the recorded amount for assets and liabilities in the financial statements include the following:

Financial Instruments

The critical assumptions and estimates used in determining the fair value of financial instruments are: equity prices; future interest rates; and estimated future cash flows.

Level of Control

When determining the appropriate basis of accounting for the Company's investments, the Company uses the following critical assumptions and estimates: the degree of control or influence that the Company exerts over the investment and the amount of benefit that the Company receives relative to other investors.

Other critical estimates and judgments utilized in the preparation of the Company's financial statements include the assessment of net recoverable amounts, net realizable values and the ability to utilize tax losses and other tax assets.

(e) Future Changes in Accounting Standards

Standards and guidelines not effective for the current accounting period are described below:

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The IASB decided to defer the mandatory effective date of IFRS 9, leaving the mandatory effective date open pending the finalization of the impairment, classification and measurement requirements. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation* ("IAS 32") was amended to clarify certain aspects as a result of the application of offsetting requirements, namely focusing on the following four main areas: the interpretation of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. IAS 32 is effective for annual periods beginning on or after January 1, 2014. The Company has not yet determined the impact of IAS 32 on its consolidated financial statements.

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for that instrument to which the Company has immediate access. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used.

Financial instruments classified as available-for-sale are carried at fair value on the consolidated balance sheets. Any changes in the fair values of financial instruments classified as available-for-sale are recognized in other comprehensive income. The cumulative changes in the fair values of available-for-sale securities previously recognized in accumulated other comprehensive income are reclassified to net income when the underlying security is either sold or there is a decline in value that is considered to be other-than-temporary. Financial instruments classified as fair value through profit and loss are carried at fair value on the consolidated balance sheets. Any changes in the fair values of financial instruments classified as fair value through profit and loss are recognized in net income.

As at December 31, 2013, a cumulative pre-tax gain of \$2,030 million (December 31, 2012 – \$1,670 million) has been recognized for financial instruments classified as available-for-sale, over their historical cost amounts.

Financial Instruments Disclosures

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation of these assets and liabilities and are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3 – Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs used in determining the estimate.

The fair value hierarchical level associated with the Company’s financial assets and liabilities measured at fair value consists of the following:

As at December 31 (Thousands)	2013			2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Brookfield Asset Management Inc.	\$2,310,897	\$ —	\$ —	\$2,033,703	\$ —	\$ —
Other securities ¹	276,840	—	—	94,381	—	—
Derivatives	—	(2,936)	—	—	—	—
	\$2,587,737	\$ (2,936)	\$ —	\$2,128,084	\$ —	\$ —

¹ Excludes New Horizons which is not held at fair value and is accounted for using the equity method.

There were no changes made to the financial instrument classifications and no transfers in and out of levels during the year.

4. INVESTMENT PORTFOLIO

The Company’s investment portfolio consists of the following:

As at December 31 (Thousands)	Number of Shares		Fair Value	
	2013	2012	2013	2012
Brookfield Asset Management Inc.	56,226	56,226	\$ 2,310,897	\$ 2,033,703
Other securities:				
Brookfield Infrastructure Partners L.P.	2,219	2,219	92,432	77,356
Brookfield Property Partners L.P.	3,613	—	76,606	—
Brookfield New Horizons Income Fund	6,100	6,100	77,340	65,325
Global Champions portfolio ¹	various	various	107,802	17,025
			\$ 354,180	\$ 159,706

¹ The securities listed in the Global Champions portfolio as of December 31, 2012 were held directly by the Company and transferred into Global Champions in March 2013, following its launch.

The Company owns 56.2 million (2012 – 56.2 million) Class A Limited Voting Shares of Brookfield (“Class A Shares”) representing an approximate 8.6% (2012 – 8.5%) fully diluted equity interest. The Company has classified the Brookfield Class A Shares as available-for-sale financial instruments, and accordingly recognizes changes in the fair value of these shares through other comprehensive income.

The Company holds an investment in Brookfield Infrastructure Partners consisting of 2.2 million (December 31, 2012 – 2.2 million) limited partnership units with a fair value of \$92 million at December 31, 2013 (December 31, 2012 – \$77 million). The Company has classified its investment in the Brookfield Infrastructure Partners units as available-for-sale financial instruments and, accordingly, changes in their fair value are recorded in other comprehensive income.

The Company has an investment in Brookfield Property Partners consisting of 3.6 million limited partnership units with a fair value of \$77 million at December 31, 2013 (December 31, 2012 - \$nil). Brookfield Property Partners was spun-off from Brookfield in April 2013. The Company has classified its investment in the Brookfield Property Partners units as available-for-sale financial instruments and, accordingly, changes in their fair value are recorded in other comprehensive income.

The Company holds a 47% ownership interest in New Horizons consisting of 6.1 million fund units (December 31, 2012 – 6.1 million) with a fair value of \$77 million at December 31, 2013 (December 31, 2012 – \$65 million). The Company exercises significant influence over the fund and accounts for the fund using the equity method. As such, the Company records its proportionate share of the investee's income as equity accounted income in net income. For the year ended December 31, 2013, the Company received total distributions of \$5 million (2012 - \$5 million) from its investment in New Horizons. New Horizons is a listed investment fund whose net asset value, which represents its fair value, is available publicly.

Also included in the other securities portfolio are the securities held by Global Champions, a public subsidiary which invests in a diversified portfolio of large capitalization companies and in which the Company owns 100% of the common equity. The fair value of these securities was \$108 million at December 31, 2013. These investments are classified as fair value through profit and loss and, accordingly, changes in their fair value are recorded in the consolidated statements of operations.

5. RETRACTABLE PREFERRED SHARES

Retractable preferred shares issued by Partners Value Split and Global Champions. are non-current liabilities and are comprised of the following:

<i>As at December 31</i>					
<i>(Thousands, except shares outstanding)</i>		Latest Redemption Date		2013	2012
Partners Value Split					
2,055,420	4.95% Class AA, Series I	March 25, 2016	\$	51,386	\$ 51,430
7,636,800	4.35% Class AA, Series III	January 10, 2019		190,920	190,920
4,997,850	7.25% Class AA, Series IV	July 9, 2014		124,946	125,000
4,999,000	4.85% Class AA, Series V	December 10, 2017		124,975	125,000
Global Champions					
2,000,000	4.00% Class A, Series I	July 31, 2019		50,000	—
				542,227	492,350
Deferred financing costs ¹				(4,696)	(4,211)
				\$ 537,531	\$ 488,139

¹ Deferred financing costs are amortized over the term of the borrowing following the effective interest rate method.

Partners Value Split

Retractable Preferred Shares issued by Partners Value Split include Class AA, Series I, Class AA, Series III, Class AA, Series IV and Class AA, Series V Preferred Shares. Partners Value Split is authorized to issue an unlimited number of Class A Preferred Shares and Class AA Preferred Shares.

The Board of Directors of Partners Value Split have the authority to fix the number of shares that will form each series and determine the rights, restrictions and conditions attached to each series. Any new series will be issued for a price of \$25.00 per share and the proceeds are to be used to finance the retraction or redemption of outstanding Preferred Shares without necessitating the sale of Class AA Shares or facilitating the acquisition of additional Class AA Shares.

Holders of Class AA, Preferred Shares, Series I; Class AA, Preferred Shares, Series III; Class AA Preferred Shares, Series IV and Class AA, Series V Preferred Shares are entitled to receive cumulative quarterly dividends of \$0.309375, \$0.271875, \$0.453125 and \$0.303125 per share, respectively, payable on or about the 7th day of March, June, September and December in each year.

Retraction

Class AA, Series I Preferred Shares may be surrendered for retraction at any time. The Class AA, Series I Preferred Share Retraction Price will be paid in cash equal to the lesser of (i) 95% of Net Asset Value per Unit of Partners Value Split; and (ii) \$25.00 less 5% of the Net Asset Value per Unit of Partners Value Split in either case less \$1.00.

Class AA, Series III, Series IV and Series V Preferred Shares may be surrendered for retraction at any time. The Class AA Series III, Series IV and Series V Retraction Price will be equal to the lesser of (i) Net Asset Value per Unit of Partners Value Split and (ii) \$25.00. Retraction Consideration will be a number of Series 1, Series 2 and Series 3 Debentures, respectively, determined by dividing the Retraction Price by \$25.00.

The Series 1 Debentures will have a principal amount of \$25.00 per debenture and will mature on January 10, 2019. Holders of the Series 1 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 4.45% per annum paid on or about the 7th day of March, June, September and December in each year. The Series I Debentures shall be redeemable by the company at any time. The Series 1 debentures may not be retracted.

The Series 2 Debentures will have a principal amount of \$25.00 per debenture and will mature on July 9, 2014. Holders of the Series 2 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 7.35% per annum paid on or about the 7th day of March, June, September and December in each year. The Series 2 Debentures shall be redeemable by the company at any time. The Series 2 Debentures may not be retracted.

The Series 3 Debentures will have a principal amount of \$25.00 per debenture and will mature on December 10, 2017. Holders of the Series 3 Debentures will be entitled to receive quarterly fixed interest payments at a rate of 4.95% per annum paid on or about the 7th day of March, June, September and December in each year. The Series 3 Debentures shall be redeemable by the company at any time. The Series 3 Debentures may not be retracted.

The “Net Asset Value per Unit” is defined as the fair value of the Portfolio shares held by Partners Value Split plus (minus) the amount by which the value of the other assets of Partners Value Split exceed (are less than) the liabilities (including any extraordinary liabilities) of Partners Value Split and the redemption value of the preferred shares, divided by the total number of Units outstanding. A “Unit” is considered to consist of one capital share and one Preferred share of any class or series. For greater certainty, the Class AA Series I, III, IV and V Preferred Shares will not be treated as liabilities for purposes of determining Net Asset Value per Unit. The fair values of these shares based on quoted market prices as at December 31, 2013 were \$25.31, \$24.25, \$25.30 and \$25.32 per share, respectively (2012 - \$25.34, \$24.43, \$26.23 and \$25.48, respectively).

Redemption

Class AA Series 1 Senior Preferred Shares may be redeemed by the company at any time prior to March 25, 2016 (the “Series 1 Redemption Date”) at a price which until March 25, 2013 will equal \$26.00 per share plus accrued and unpaid dividends and which will decline by \$0.25 each year thereafter to be equal to \$25.00 on the Series 1 Redemption Date. All Class AA Series 1 Preferred Shares outstanding on the Series 1 Redemption Date will be redeemed for a cash amount equal to the lesser of \$25.00 plus any accrued and unpaid dividends, and the net assets per Unit.

Class AA Series 3 Senior Preferred Shares may be redeemed by the company at any time on or after January 10, 2012 and prior to January 10, 2019 (the “Series 3 Redemption Date”) at a price which until January 9, 2016 will equal \$26.00 per share plus accrued and unpaid dividends and which will decline by \$0.25 each year thereafter to be equal to \$25.00 on the Series 3 Redemption Date. All Class AA Series 3 preferred shares outstanding on the Class AA Series 3 Redemption Date will be redeemed for a cash amount equal to the lesser of \$25.00 plus any accrued and unpaid dividends, and the net assets per Unit.

Class AA Series 4 Senior Preferred Shares may be redeemed by the company at any time prior to July 9, 2014 (the “Series 4 Redemption Date”) for \$26.00 per share plus any accrued and unpaid dividends if, and will not redeem Class AA Series 4 Preferred Shares prior to the Series 4 Redemption Date unless: (i) Capital Shares have been retracted; or (ii) there is a take-over bid for the Brookfield Shares and the Board of Directors of the company determines that such bid is in the best interest of the holders of the Capital Shares. All Class AA Series 4 Senior Preferred Shares outstanding on the Series 4 Redemption Date will be redeemed for a cash amount equal to the lesser of \$25.00 plus any accrued and unpaid dividends, and the net assets per Unit.

Class AA Series 5 Senior Preferred Shares may be redeemed by the company at any time on or after December 10, 2015 and prior to December 10, 2017 (the “Series 5 Redemption Date”) at a price which until December 10, 2016 will equal \$25.50 per share plus accrued and unpaid dividends and which will decline by \$0.25 each year thereafter to be equal to \$25.00 on the Series 5 Redemption Date. All Class AA Series 5 Senior Preferred Shares outstanding on the Series 5 Redemption Date will be redeemed for a cash amount equal to the lesser of \$25.00 plus any accrued and unpaid dividends, and the net assets per Unit. The company may redeem Class AA Series 5 Senior Preferred Shares prior to December 10, 2015 for \$26.00 per share plus accrued and unpaid dividends if, and will not redeem Class AA Series 5 Senior Preferred Shares prior to the Series 5 Redemption Date unless: (i) Capital Shares have been retracted; or (ii) there is a take-over bid for the Brookfield Shares and the Board of Directors of the company determines that such a bid is in the best interest of the holders of the Capital Shares.

Global Champions

Retractable Preferred Shares issued by Global Champions include Class A, Series I. Global Champions is authorized to issue an unlimited number of Class A Preferred Shares.

The Board of Directors of Global Champions have the authority to fix the number of shares that will form each series and determine the rights, restrictions and conditions attached to each series.

Holders of Class A, Series I Preferred Shares are entitled to receive cumulative quarterly dividends of \$0.25 per share, respectively, payable on or before the 15th day of January, April, July, and October in each year.

Retraction

Class A, Series I Preferred Shares may be surrendered for retraction at any time. The Class A Series I Retraction Price will be equal to the lesser of (i) Net Asset Value per Unit of Global Champions and (ii) \$25.00. Retraction Consideration will be a number of Debentures determined by dividing the Retraction Price by \$25.00.

The Debentures will have a principal amount of \$25.00 per debenture and will mature on July 31, 2019. Holders of the Debentures will be entitled to receive quarterly fixed interest payments at a rate of 4.10% per annum paid on or before the 15th day of January, April, July, and October in each year. The Series I Debentures shall be redeemable by the company at any time. The Series 1 debentures may not be retracted.

The "Net Asset Value per Unit" is defined as the fair value of the Portfolio shares held by Global Champions plus (minus) the amount by which the value of the other assets of Global Champions exceed (are less than) the liabilities (including any extraordinary liabilities) of Global Champions and the redemption value of the preferred shares, divided by the total number of Units outstanding. A "Unit" is considered to consist of one capital share and one Preferred share of any class or series. For greater certainty, the Class A, Series I Preferred Shares will not be treated as liabilities for purposes of determining Net Asset Value per Unit. The fair values of these shares based on quoted market prices as at December 31, 2013 were \$25.00 per share.

Redemption

Class A, Series I Preferred Shares may be redeemed by the company at any time at a price equal to (i) \$26.00 per share plus accrued and unpaid dividends if the date specified for redemption is prior to July 31, 2017; (ii) \$25.50 per share plus accrued and unpaid dividends if the date specified for redemption is on or after July 31, 2017 and prior to July 31, 2018; (iii) \$25.25 per share plus accrued and unpaid dividends if the date specified for redemption is on or after July 31, 2018 and prior to the final Series I redemption date; and (iv) the lesser of (x) \$25.00 plus accrued and unpaid dividends and (y) the Net Asset Value per Unit on the redemption date if the date specified for redemption is the final Series I redemption date.

6. SHAREHOLDERS' EQUITY

Authorized

50,000,000 preferred shares, issuable in series.

An unlimited number of voting and non-voting common shares.

Issued and outstanding

	Number Outstanding		Book Value	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
<i>(Thousands)</i>				
Common shares, voting and non-voting	74,207	74,207	\$ 79,450	\$ 79,450
Accumulated other comprehensive income			1,748,110	1,433,855
Retained earnings			53,995	21,441
			\$ 1,881,555	\$ 1,534,746

7. NET INCOME PER COMMON SHARE

Net income per common share is calculated based on the weighted average number outstanding shares during the year. For the year ended December 31, 2013, the weighed average number of outstanding shares were 74,206,510 (2012 – 74,206,510).

8. INCOME TAXES

The major components of income tax expense for the years ended December 31 are set out below:

<i>(Thousands)</i>	2013		2012	
Current income tax expense	\$	1,123	\$	508
Deferred income tax expense		2,466		1,662
Income tax expense	\$	3,589	\$	2,170

The Company's effective tax rate is different from the Company's statutory income tax rate for the years ended December 31 due to the differences set out below:

<i>(Thousands)</i>	2013		2012	
Statutory income tax rate		26.50%		26.50%
Tax payable at statutory rate	\$	9,578	\$	5,642
Increase (reduction) in income tax expense resulting from:				
Non-taxable dividends		(8,982)		(8,154)
Income subject to different tax rates		(4,504)		—
Non-deductible expenses		7,524		6,884
Other		(27)		(2,202)
Income tax expense	\$	3,589	\$	2,170

Deferred income tax assets and liabilities as at December 31 relate to the following:

<i>(Thousands)</i>	2013		2012	
Non-capital losses	\$	2,294	\$	1,759
Capital losses		—		118
Difference in basis		(250,274)		(199,275)
Total net deferred tax liability	\$	(247,980)	\$	(197,398)
Deferred income tax asset	\$	2,294	\$	1,877
Deferred income tax liability		(250,274)		(199,275)
Total net deferred tax liability	\$	(247,980)	\$	(197,398)

The movements of deferred income tax balances are as follows:

<i>(Thousands)</i>	Recognized in					Dec. 31, 2013
	Dec. 31, 2012	Income	Equity	OCI		
Deferred tax assets related to non-capital losses can capital losses	\$ 1,877	\$ 417	\$ —	\$ —	\$	2,294
Deferred tax liabilities related to differences in tax and book basis, net	(199,275)	(2,883)	—	(48,116)		(250,274)
Net deferred tax liabilities	\$ (197,398)	\$ (2,466)	\$ —	\$ (48,166)	\$	(247,980)

The Company has deferred tax assets of \$2 million (December 31, 2012 – \$2 million) related to non-capital losses that expire after 2030, and \$nil (December 31, 2012– \$nil) related to capital losses that have no expiry.

9. RELATED PARTY TRANSACTIONS

Brookfield provided management and financial services to the Company during 2013 and 2012 and recovered costs of \$40 thousand in 2013 (2012 – \$48 thousand) in respect of those services.

At December 31, 2013, the Company had \$nil (2012 – \$24 million) of its cash and cash equivalents on short-term deposit with Brookfield.

10. RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (i.e., currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The following are risk factors relating to an investment in the common shares of the Company.

Market Price Risk

The value of the Class A Shares and the Company's other securities are exposed to variability in fair value due to movements in equity prices. As a result, the fair value of the Company's investment portfolio may vary from time to time. The Company records these investments at fair value. A 1% increase (decrease) in the market price of Brookfield, all else being equal, would increase (decrease) the carrying value of this investment by \$23 million (2012 – \$20 million), which would have resulted in an increase (decrease) to other comprehensive income of \$23 million (2012 – \$20 million) on a pre-tax basis.

Foreign Currency Risk

Brookfield declares dividends in U.S. dollars, which are then converted to Canadian dollars for distribution to Canadian shareholders, including the Company. In addition, Brookfield Infrastructure and Brookfield Property Partners declares distributions in U.S. dollars. During the year ended December 31, 2013, a \$0.01 appreciation (depreciation) in the Canadian dollar, relative to the U.S. dollar, would have decreased (increased) net income by \$0.4 million (2012 - \$0.3 million).

Changes in the Canadian dollar relative to the U.S. dollar impacts the quoted fair value of certain of the Company's investments. During the year ended December 31, 2013, a \$0.01 appreciation (depreciation) in the Canadian dollar, relative to the U.S. dollar, would have decreased (increased) other comprehensive income by approximately \$1.0 million (2012 - \$0.8 million) relating to the value of these investments.

Interest Rate Risk

The Company's preference shares are fixed rate and the Company has negligible floating rate assets or liabilities. Accordingly, changes in the interest rates do not have an impact on net income or other comprehensive income.

Liquidity Risk

The Company's retractable preference shares expose the Company to liquidity risk to fund retractions and redemptions as well as dividend and interest obligations. The Company endeavors to maintain dividend income within the subsidiary that issued the preference shares that exceeds the projected dividend obligations, and expects to be able to continue to achieve this objective based on current circumstances. Management expects to fund any retraction obligations through a combination of ongoing cash flow, the proceeds from any new financings and proceeds from the sale of securities.

Contractual Obligations

The Company's contractual obligations as of December 31, 2013 are as follows:

(Thousands)	Total	Payment Due By Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
Retractable preferred shares					
Partners Value Split:					
Class AA, Series I ¹	\$ 51,386	\$ —	\$ 51,386	\$ —	\$ —
Class AA, Series III ²	190,920	—	—	—	190,920
Class AA, Series IV ³	124,946	124,946	—	—	—
Class AA, Series V ⁴	124,975	—	—	124,975	—
Global Champions:					
Class A, Series I ⁵	50,000	—	—	—	50,000

Dividend expense related to:

Retractable preferred shares

Partners Value Split:

Class AA, Series I	\$ 5,945	\$ 2,543	\$ 3,402	\$ —	\$ —
Class AA, Series III	42,640	8,305	16,610	16,610	1,115
Class AA, Series IV	5,721	5,721	—	—	—
Class AA, Series V	23,028	6,061	12,122	4,845	—
Global Champions:					
Class A, Series I	11,170	2,000	4,000	4,000	1,170

¹ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in cash.

² Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2019.

³ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2014.

⁴ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2017.

⁵ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2019.

The Company's contractual obligations as of December 31, 2012 were as follows:

(Thousands)	Total	Payment Due By Period			
		Less than 1 year	2-3 years	4-5 years	After 5 years
Retractable preferred shares					
Partners Value Split:					
Class AA, Series I ¹	\$ 51,430	\$ —	\$ —	\$ 51,430	\$ —
Class AA, Series III ²	190,920	—	—	—	190,920
Class AA, Series IV ³	125,000	—	125,000	—	—
Class AA, Series V ⁴	125,000	—	—	125,000	—

Dividend expense related to:

Retractable preferred shares

Partners Value Split:

Class AA, Series I	\$ 8,498	\$ 2,546	\$ 5,092	\$ 860	\$ —
Class AA, Series III	50,945	8,305	16,610	16,610	9,420
Class AA, Series IV	14,786	9,063	5,723	—	—
Class AA, Series V	29,097	6,063	12,125	10,909	—

¹ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in cash.

² Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2019.

³ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2014.

⁴ Payment period based on mandatory redemption date. In the case of earlier retractions, consideration to be paid in the form of debentures of the Company due 2017.

11. CAPITAL MANAGEMENT

As at December 31, 2013, the capital base managed by the Company consisted of common equity with a carrying value of \$1,882 million (December 31, 2012 - \$1,535 million) and \$538 million (December 31, 2012 - \$488 million) of retractable fixed rate preferred shares issued by Partners Value Split and Global Champions. The Company has complied with all covenants, which are limited, and is not subject to any externally imposed capital requirements.

Corporate Information

DIRECTORS

John P. Barratt^{1,2}
Corporate Director

Edward C. Kress
Corporate Director

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

Frank N.C. Lochan^{1,2}
Corporate Director

Ralph J. Zarboni^{1,2}
President
Rossiter Ventures Corporation

¹ Member of the Audit Committee

² Member of the Governance Committee

OFFICERS

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Chairman

Edward C. Kress
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Loretta M. Corso
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