

Brookfield

Annual Report 1990

BROOKFIELD

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BROOKFIELD IS A DIVERSIFIED REAL ESTATE COMPANY WITH OVER \$2 BILLION IN ASSETS REPRESENTED BY OFFICE AND RETAIL PROJECTS IN MONTREAL, TORONTO, CHICAGO, MINNEAPOLIS, ST. PAUL, DENVER, AND ORANGE COUNTY, CALIFORNIA AS WELL AS OVER 5,800 ACRES OF DEVELOPMENT LAND • ON COMPLETION OF ITS DEVELOPMENT PROGRAM BROOKFIELD WILL HAVE INTERESTS IN 15 MAJOR COMMERCIAL PROPERTIES CONTAINING 11 MILLION SQUARE FEET OF LEASABLE SPACE • BROOKFIELD'S OBJECTIVES ARE TO BUILD LONG TERM UNDERLYING ASSET VALUES WHILE GENERATING POSITIVE ANNUAL CASH FLOWS •

FINANCIAL HIGHLIGHTS

Years Ended December 31

(\$ thousands)	1990	1989
Cash Flow (Deficiency) From Operations	(6,903)	3,449
Net Operating Income (Loss)	(11,521)	3,449
Net Operating Income Before Interest On Secured Loans	29,902	3,752
Operating Revenues	80,740	4,849
Total Assets	2,093,004	555,198
Capital Base Including Secured Loans	668,904	332,591

PRESIDENT'S REPORT

I am pleased to present the first publicly issued annual report of Brookfield Development Corporation, the principal operating subsidiary of BCE Development Corporation. Although 1990 was a challenging and difficult year which tested Brookfield's management team, overall it was successful with most of the Company's objectives having been met or exceeded. Besides substantially refocusing the Company's operations, arrangements were made to increase the Company's capital base in order to take full responsibility for financing and completing BCED's extensive property development program. In addition, a number of operating properties were acquired, principally from other subsidiaries of BCED.

As a result of these initiatives, Brookfield has emerged as a major commercial real estate company with an interest in 11 million square feet of prime rental space located in Montreal, Toronto, Chicago, Minneapolis, St. Paul, Denver and Orange County. Brookfield also holds a portfolio of mortgages and other non-core real estate assets which are expected to be sold over the next three years to generate approximately \$250 million to further improve the Company's financial position.

Capital Resources An important component of Brookfield's capital base is a \$700 million secured loan facility, excluding interest advances, provided by BCE Inc. and Carena Developments Limited. BCE and Carena have agreed to apply all amounts outstanding under the secured loan facility to

the purchase of common shares of Brookfield in support of a financial restructuring to be concluded during the first quarter of 1993. It is expected that the restructuring will include a rights offering in which the public securityholders of BCED will have an opportunity to participate.

The secured loan facility was established with BCE and Carena in January 1990, when real estate loans were difficult to obtain and was essential in securing the confidence of Brookfield's other lenders. It also provides assurance to the Company's tenants and contractors that the Company's development program will be completed as scheduled. On conversion of this loan facility into common shares of Brookfield, the Company will rank among the most conservatively capitalized property companies in North America and will be well-positioned to increase its annual cash flows and long term asset values.

Loan Conversions When providing the loan facility to Brookfield in January 1990, BCE and Carena expected the conversion into Brookfield common shares to be completed by June 30, 1991, with their loans coming due on July 15, 1991 if the rights offering had not proceeded. The Independent Directors of BCED's Board, however, recommended in June of 1991 that Brookfield seek the agreement of BCE and Carena to defer proceeding with the conversion of these loans to provide additional time for real estate values to recover and thereby potentially increase BCED's residual interest in

Brookfield after the conversion. Pursuant to this recommendation of the Independent Committee, an agreement was reached with BCE and Carena to defer the maturity of their loans until April 30, 1993 in contemplation of a rights offering and equity conversion to occur during the first quarter of 1993 based on values as at December 31, 1992. This extension agreement is conditional on BCE and Carena receiving satisfactory evidence that Brookfield's commercial banks and project lenders will continue to support Brookfield and on BCED's creditors similarly deferring the enforcement of any claims they may have during the deferral period.

These arrangements, if abided by all claimants, will preserve the opportunity for BCED's creditors and other securityholders to participate in any recovery in real estate values during the deferral period. If all claimants do not abide by the deferral arrangements, BCE and Carena will be entitled to take such proceedings as they consider appropriate to protect their secured loans to the Company, which may include the commencement of realization or other enforcement proceedings. If this occurs, BCE and Carena have stated that they intend to work with Brookfield with a view to completing the development program and safeguarding the interests of the Company's commercial banks and project lenders as well as trade creditors.

Equity Issue Terms In anticipation of Brookfield issuing its common shares under

the proposed rights offering and becoming a public company, discussions have been and will continue to be held with representatives of BCED's public securityholders and other interested parties. The objective is to ensure that there is a full understanding of the process underway to establish Brookfield as a free-standing public company.

The terms of the proposed equity issue will be settled after completion of market valuations of Brookfield's assets conducted under the direction of BCED's Independent Committee. These valuations will form the basis for establishing the price per share at which Brookfield's equity will be issued to BCE, Carena and the BCED public securityholders. These values could differ in two important respects from the carrying values shown in the Company's financial statements. First, the Company will be further advanced with the current development and leasing program and the valuations will take into account any appraisal increment which may exist at the time on both development and income producing properties. Second, under the method of valuing a number of the Company's rental properties for the purposes of determining asset provisions, in accordance with prevailing accounting conventions, a discount factor is not applied when valuing anticipated cash flows, which could result in carrying values being higher than market values.

The rights offering is to be priced to ensure a meaningful public participation in the offer-

ing, thereby requiring an appropriate discount to the market value of Brookfield's assets. If there is uncertainty at the time of determining the price for issuing shares of Brookfield, either because of the state of the real estate markets or because the values of the Company's development properties cannot be determined reasonably accurately, consideration will be given to providing BCED with warrants to purchase additional common shares of Brookfield at some future date. The warrants would be subject to the concurrence of BCE and Carena and will likely entitle the holders to purchase Brookfield common shares at the same price to be paid by BCE and Carena, adjusted by carrying costs to the date of subscription.

Financial Results Notwithstanding the significant changes made during the year in the nature and scope of Brookfield's business activities, the Company's operating results improved over management's previously announced expectations. The operating loss, which amounted to \$11.5 million for the year, includes a charge of \$41.4 million for interest on the loan facility provided by BCE and Carena which, if converted, would have resulted in a respectable level of earnings in 1990.

Brookfield conducts an annual review of the carrying value of its properties in accordance with accounting conventions. As a result, the Company recorded a provision for diminution in property values of \$61.1 million. Including the additional provision, Brookfield

incurred a net loss of \$74.6 million for the year.

Operations Brookfield made significant progress during the year in implementing the business plan adopted at the beginning of 1990 and as a result is now operating on a more cost efficient and service oriented basis and is well positioned to benefit from any appreciation in property values. In addition to arranging over \$900 million of revolving credit facilities and over \$800 million of project loans to fund the completion of the Company's development program, operating and administrative costs were reduced and other efficiencies introduced.

During the year construction continued without interruption on eight major properties which included the flagship BCE Place, a 2.5 million square foot office and retail development in the centre of Toronto's financial core; 1000 de la Gauchetière, a 1.0 million square foot office building in downtown Montreal; and the recently opened Chicago Place retail centre on Chicago's famed North Michigan Avenue. All of the projects are now "topped off" and first occupancies for each are scheduled for no later than the end of 1991. During the year, the first phase of BCE Place was opened, as were the Chicago Place and Gaviidae Common retail projects, both of which are anchored by Saks Fifth Avenue.

Despite difficult real estate markets throughout North America, the Company made progress toward achieving lease-up of its devel-

opment projects and in maintaining or improving occupancy levels in its operating properties. Leasing and tenant management programs were enhanced through the coordination of efforts throughout the Company. At BCE Place, leasing for Phase I was improved from 66% reported last year to 75%, and lease commitments for Phase II increased to 31%.

During 1990, progress was also made in providing greater focus to Brookfield's overall business activities. This entails concentrating on major office buildings and urban retail centres where the Company enjoys a competitive advantage and disposing of properties which do not meet the Company's long-term plans. In accordance with this policy, three properties were sold for \$18.1 million. Since the end of the year, eight more properties have been sold or are under contract for sale, which should generate sales proceeds of approximately \$90 million.

Business Outlook In adopting a more disciplined, service oriented approach to the real estate business, Brookfield's management team has obtained the support of its major lenders, tenants and construction trades. This has made it possible to further the completion of one of the largest development programs currently underway in North America. In addition, management has worked constructively with project lenders holding mortgages on the major troubled real estate properties acquired by BCED in 1986 and in the process has restructured the terms

of their loans on a mutually acceptable basis. This in turn has enabled the secured lenders and Brookfield to acquire ownership interests in these properties. The experience and goodwill developed during the past year, and in particular the commitment to fair dealing, should benefit Brookfield materially in the years ahead when more value is likely to be created in the real estate industry by improving existing properties than by undertaking new developments.

On completion of the current development program, the Company's management expects to build on the skills it has acquired in restructuring Brookfield. Management looks forward to the challenge of working with institutional real estate investors by helping to re-establish value and, in return, earn ownership interests in their properties.

Through the continued dedication of management to conservative business principles and the valued relationships being developed with our principal bankers, project lenders and institutional real estate investors, we believe Brookfield is well positioned to capitalize on the recovery in real estate values and the opportunities the future is likely to bring.



Gordon E. Arnell
President and Chief Executive Officer
June 13, 1991

OPERATIONAL REVIEW

General Brookfield's corporate office deals principally with arranging financing, corporate legal affairs, human resources management, financial reporting as well as the coordination of the Company's development program. In addition, it is responsible for the accountability of four regional offices which manage the Company's property portfolio and supervise construction of new projects. The Company is structured to operate on a cost effective basis in performing these corporate functions.

The Company's four regional offices are located in Montreal, Toronto, Minneapolis and Orange County, California. The Senior Vice President in each office has the development, leasing, operations, marketing and accounting resources necessary to deal effectively with all aspects of real estate development and management. Their objective is to develop and manage projects which provide consistent increases in cash flow and underlying value. Overheads incurred within each region are sustained through development and management fees generated from the region's properties.

Quebec Region The Quebec region's activities were focused in 1990 on the development of 1000 de la Gauchetière, a one million square foot office, retail and transportation

project in the heart of downtown Montreal. At fifty-one storeys, it is the tallest building in the city and will contain some of Montreal's most unique public spaces. Included are an eight storey public atrium, a winter garden and a year-round indoor skating rink.

Scheduled to open in the fall of 1991, the project is 61% leased to Teleglobe Canada, the country's international telecommunications carrier, and to the Lavalin Group, a major international engineering consulting firm. The project enjoys unprecedented access to transportation, having direct connections to the subway, bus, and train systems. As well, its close proximity to major freeways and its connection to the city's extensive underground pedestrian network make it an ideal location within Montreal's central business district.

New development opportunities are also being explored, including initiatives to meet the real estate requirements of affiliated companies. Successes in this regard include providing advisory services to Bell Canada for a new 300,000 square foot administration building in Hull, Quebec, and the development of a new 40,000 square foot regional headquarters building in Val d'Or, Quebec, for Telebec Ltd., which provides telecommunications services in Northwestern Quebec.



1000 de la Gauchetière's striking architecture, unique amenities and transportation linkages will ensure its position as one of Montreal's pre-eminent mixed use projects.

Ontario Region The Ontario region's principal activity has been the development of three properties comprising 2.8 million square feet in downtown Toronto.

The largest of these properties, BCE Place, will provide the Toronto financial core with a complex unrivalled in terms of architectural design and building systems.

The first phase of BCE Place, the 1.2 million square foot Canada Trust Tower, was opened in March, 1990 and provides premises to an impressive array of Canada's largest corporations and professional firms. Leasing activity has continued throughout the year and is now at 75%, in spite of continuing soft market conditions. The 1.4 million square foot second phase was 31% leased as of May, 1991, with initial occupancy scheduled for the fall of 1991.

The public amenities of this project include a five storey glass galleria spanning the length of the development. This 380 foot avenue leads into a glass enclosed, European style square, home to shops and restaurants, including a 16,000 square foot Movenpick Marché restaurant. The concourse level with its fifty-two retail shops will provide full

services to office tenants and a direct link to Union Station to the south and Commerce Court to the north.

Brookfield's other downtown project, the redevelopment of 320 Bay Street, is composed of a historic 18 storey building, constructed in 1929, and a new 14 storey addition constructed on adjacent lands and fully integrated into the original renovated structure. This combined project which contains 294,000 rentable square feet was redeveloped with a view to restoring its original elegance, and at the same time providing modern systems required by today's discriminating office tenants. Restoration is scheduled for completion in the fall of 1991. The project is already 51% leased, with Barclays Bank of Canada being the major tenant.

Also owned and managed is a premium quality 214,000 square foot building located in the Mississauga Airport Centre. Its first-class standards reflect the image of both Brookfield and its sole tenant, Northern Telecom.

The Ontario region has established a property management division to manage these properties, which has become a leader in the area of tenant service.



Brookfield's flagship project, BCE Place, is located at the heart of Toronto's financial core. The twin towers represent state of the art in office building standards and the public amenities are unprecedented.

Midwest/Mountain Region

- **Chicago** Brookfield's spectacular eight level Chicago Place retail project on the world famous North Michigan Avenue opened in September, 1990. Anchored by Saks Fifth Avenue it provides a unique shopping experience. The Company is also developing the 700 North Michigan Condominiums, consisting of 204 luxury units constructed above Chicago Place. The first sales closed in January, 1991 and ongoing sales activity exceeds expectations.

The Company manages and has a 10% interest in the 845,000 square foot Quaker Tower office project which is 95% leased.

- **Minneapolis and St. Paul** Brookfield is the largest developer in the Minneapolis central business district with interests in three major mixed use properties. IDS Center and Minneapolis City Center, each in excess of one million feet, represent approximately 20% of the downtown prime office market. Their integral retail facilities compliment and enhance Brookfield's recently opened Gaviidae Common, a five level specialty retail complex anchored by Saks Fifth Avenue and Neiman Marcus. Combined this represents approximately 35% of downtown retail space and Minneapolis's largest retail complex with over one million square feet. Both retail and

office tenants are provided with the finest facilities and service, as evidenced by occupancy levels exceeding 90%

The Company's third major office project in Minneapolis, the Dain Bosworth Plaza, is under development. Leasing commitments for the 594,000 square foot office tower total approximately 31% including Inter-Regional Financial Group, the parent of Dain Bosworth, a major financial services company, and the Marquette National Bank. The opening of the project is planned for the fall of 1991.

Brookfield's 36 storey Minnesota World Trade Center in St. Paul has at its base the Town Court retail complex. This project opened in 1987 and is acknowledged as the highest quality and best located in the city's core.

- **Denver** The World Trade Center consists of two 29 storey office towers with a shared plaza and underground parking and is located in the heart of Denver's central business district. The Company also manages the 1.3 million square foot Republic Plaza for BCED, and has commenced discussions with the project's lenders with a view to restructuring their debt and acquiring an interest in this property.



The Dain Bosworth Plaza in Minneapolis, Minnesota is a 40 storey mixed use project. The retail portion of the complex, Gaviidae Common, is anchored by Neiman Marcus and Saks Fifth Avenue and is located on the Nicollet Mall.

Western Region

• **Orange County, California** The primary focus in Orange County has been the development of the MacArthur Place office park. This 53 acre master planned phased development will include 19 office towers comprising 3.7 million square feet, a 225 room hotel, full service retail facilities and 400 residential units. Its unique integration of mixed uses, underground parking, landscaped environment and its proximity to Orange County's airport will provide tenants with a preferred address in Orange County. The first building, a 239,000 square foot, eleven storey office structure, Imperial Promenade, was recently completed and is 43% leased. Lead tenants include Deloitte & Touche and The Austin Company, a major engineering firm. Brookfield has located its Western regional office in this building.

• **Southern California** Brookfield has an interest in two major residential land tracts in Southern California known as La Costa and Scripps Ranch. These are being developed in partnership with highly respected local developers who are acting as general managers for the projects. Brookfield has a profit interest in both the land development

and the home building operations in each of the partnerships.

The La Costa project is adjacent to the world renowned La Costa Spa and Resort. La Costa is a 2,400 acre land parcel in Carlsbad, California and will be developed into 3,200 single family detached homes. Also planned is a town centre with integrated residential and commercial uses. Most of the single family homes will be developed by Brookfield's partner, The Fieldstone Company, a major California residential developer.

Scripps Ranch is the largest fully entitled developable land parcel within the San Diego city limits, comprising some 1,200 acres. This master planned community will include 1,470 single family homes, 1,070 townhomes and condominiums, 430 apartment units, and a myriad of amenities. Most of the single family homes will be developed by Brookfield's partner McMillin Communities Inc., a highly respected home developer in the San Diego area. Construction of the extensive land infrastructure is now underway with the expectation of having homes for sale in early 1993.



Imperial Promenade is the first office building in the MacArthur Place development in Orange County, California. Upon completion, over 4 million square feet of mixed use space will be located in this unique urban village.

CONSOLIDATED FINANCIAL STATEMENTS

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FINANCIAL ANALYSIS AND REVIEW

At the beginning of 1990, Brookfield adopted a business plan which required Brookfield to establish a strong capital base to support its expanded ongoing operations. An integral part of the business plan entailed the conversion into Brookfield common shares of a \$500 million secured loan facility provided by BCE and Carena to enable an extensive development program to continue uninterrupted. This conversion was to have been accomplished in connection with a rights offering to be made to public securityholders of BCED, Brookfield's parent company. The secured loan was subsequently increased to \$700 million. At the time the credit facility was established, the parties expected the equity conversion to be completed by June 30, 1991, failing which the loans were to mature on July 15, 1991. However, an agreement was recently reached to defer the maturity of this loan until April 30, 1993 in contemplation of a common share rights offering and equity conversion to occur during the first quarter of 1993 based on values as at December 31, 1992. The objective of this deferral is to provide BCED's creditors and shareholders with an opportunity to participate in any recovery in real estate values during the next eighteen months.

Operating Results

During 1990 Brookfield made considerable progress in implementing its operating plans. The net operating loss for the year was \$11.5 million on revenues of \$80.7 million. These losses compare with net operating income of \$3.4 million on revenues of \$4.8 million for 1989. Brookfield will continue to report operating losses until its secured loans have been

converted into equity in accordance with the Company's plans. Brookfield would have reported net operating income of \$29.9 million had the secured loan been converted to equity at the beginning of the year.

The following is a summarized version of the Company's 1990 operating statements:

	(\$000's)
Net rental income	\$ 26,818
Net income from real estate sales	4,422
Interest and other income	18,245
Net operating revenue	49,485
Interest expense	50,033
General and administrative	4,789
Depreciation and amortization	4,618
Other costs	1,566
Total expenses	61,006
Net operating loss	\$(11,521)

Operating results are expected to continue to improve in 1991 as progress is made in implementing the Company's plans and the impact of asset sales in the latter part of 1990 are reflected in earnings.

On completion of the property development program, net rental income is expected to grow as properties are brought into the income producing category. The effect on operating income, however, is not expected to be significant in the short term as rental income from properties recently completed seldom generates sufficient cash flow to cover related financing costs. The successful conversion to equity of the secured loans made by BCE and

Carena to Brookfield will significantly improve operating results.

- **Net rental income** Net rental income of \$26.8 million, being rental revenues less rental operating costs (but before interest and depreciation charges) increased substantially in 1990 as a result of properties acquired during the year. These properties will contribute a full year's rental income in 1991 as opposed to income only from the date of acquisition in 1990.

- **Net income from real estate sales** During 1990, the Company reviewed its portfolio to identify properties that no longer met its strategic objectives and developed a plan to systematically dispose of these assets. Real estate sales resulted in a gain of \$4.4 million after expensing holding costs including property tax reassessments from prior years.

At the beginning of 1991, the Company completed a definitive plan for the disposition of its non-strategic assets, including the identity of the assets and their carrying values, and as a result will adopt a new accounting policy with respect to these assets, applicable to 1991 and subsequent years. Under the new policy, costs, including carrying costs, related to these assets will be capitalized and income on sales will be deferred until there is certainty that the balance of the portfolio will be disposed of for a profit. The carrying values for these assets will continue to be reviewed each year and additional provisions taken if necessary.

- **Interest and other income** Interest and other income increased to \$18.2 million

from \$4.8 million in 1989, principally as a result of income earned from mortgages and notes receivable acquired during the year.

- **Interest expense** Interest expense increased during 1990 to \$50.0 million, from \$6.6 million in 1989, largely as a result of increased corporate borrowings under the secured bank indebtedness and the loan facility provided by BCE and Carena, and debt assumed related to the acquired properties.

In the same manner as net rental income is expected to increase due to the effects of a full year's results, interest expense will increase as the liabilities related to those assets are carried for a full year.

- **General and administrative** General and administrative expenses were \$4.8 million in 1990, well within the budget levels set at the beginning of the year. Brookfield is committed to monitoring costs closely and improving operating efficiencies at all levels. It is anticipated that these costs will not increase significantly in 1991 despite an expected increase in activity for the year.

- **Depreciation and amortization** The charge for depreciation and amortization was \$4.6 million in 1990, again reflecting the increase in income producing properties acquired or brought into operation during the year for accounting purposes. In 1991 the charge is expected to increase due to a full year's provision being recorded on properties acquired during 1990. In addition, the sinking fund method of depreciation used by the Company results in an increasing provision

of 5% annually on income producing properties.

• **Other Costs** Other costs were largely due to consulting and other advisory fees relating to the restructuring of the Company's operations.

Balance Sheet Analysis

The following is a summarized version of Brookfield's consolidated balance sheet at December 31, 1990:

	(\$000's)
Assets	
Properties	\$1,826,832
Mortgages, notes and other receivables	214,220
Cash and other assets	51,952
	<u>\$2,093,004</u>
Liabilities	
Property debt and other secured liabilities	\$1,097,909
Accounts and other payables	172,191
	<u>1,270,100</u>
Preference Shares of Subsidiaries	<u>154,000</u>
Capital Base	
Secured loan from BCE and Carena	617,054
Shareholders' equity	51,850
	<u>668,904</u>
	<u>\$2,093,004</u>

• **Properties** Brookfield conducts an annual review of the carrying value of its prop-

erties in accordance with accounting conventions. As a result the Company recorded a provision for diminution in property values of \$61.1 million. After deducting this additional provision, the investment in properties increased substantially as a result of the significant level of development expenditures and properties acquired during the year.

The Company expects that 1991 will result in a further increase in the Company's property assets as the development program continues on five major projects. The increase will, however, be reduced by project debt restructuring activities and asset sales under the disposition program. Asset sales are expected to generate sales proceeds, net of holding and development costs, equal to or in excess of their carrying costs.

The Company's property assets are segmented into rental properties and properties held for sale. The allocation of the properties held at December 31, 1990 is as follows:

	(\$000's)
Rental Properties	
Income producing	\$ 497,443
Under development	811,165
Held for future development	94,803
	<u>1,403,411</u>
Properties held for sale	423,421
	<u>\$1,826,832</u>

Rental properties For the most part, rental properties are classified as being held for long term investment purposes and are therefore carried at the lower of cost less accumu-

lated depreciation and net recoverable amount. The net recoverable amount represents the amount expected to be received as net cash flow from the ongoing use and residual worth of the property. To arrive at this amount, the Company is required to project the cash flows for each property on an undiscounted basis, and as a result of not discounting the cash flows, the carrying value of an individual property may be greater than market value. However, the Company's objective is to ensure aggregate carrying values do not exceed the median of aggregate realizable values. The projections take into account the specific business plan for the property and the most probable set of economic conditions anticipated to prevail in the market area. Properties acquired during the year, where debt has been restructured, have carrying values reflecting the restructuring.

Properties held for sale As noted above, the properties held for sale are specifically identified as no longer meeting the Company's long term objectives. A disposition plan has been developed for each property that is expected to maximize value to the Company. While many of the plans simply require an orderly marketing of the property, others, such as the Scripps Ranch and La Costa residential developments in Southern California, require the Company to invest further in the development of the property prior to disposition. These properties are dealt with as inventory and are carried at the lower of their cost and net realizable values.

• **Mortgages, notes and other receivables** Mortgages, notes and other receiv-

ables increased to \$214.2 million in 1991. Approximately 90% of these receivables are secured by first mortgages.

• **Cash and other assets** Cash and other assets consist of cash held in escrow to meet specific obligations, prepaid expenses, and furniture, fixtures and equipment. Included in cash and other assets are deposits totalling \$39.9 million which can be applied only to specific liabilities, or become available to the Company in the future.

• **Property debt and other secured liabilities** Total property debt and other secured liabilities were \$1,097.9 million at the end of 1990. Property specific debt, including debts secured by mortgages receivable held by Brookfield, increased by \$766.0 million, reflecting funding under construction loans and debt assumed on acquired properties. At the same time, advances under the Company's \$200 million revolving secured bank credit facilities were drawn to \$135.2 million.

In 1991, the Company expects to make more substantial use of the project credit facilities now arranged for its five major development properties. These facilities are typically committed on a cost to complete basis, requiring the Company to have funded sufficient development costs from its other resources such that the unutilized portion of the construction facility will always be adequate to fund the remaining costs to complete the development. The projects have progressed to the point where the cost required to complete permit the Company to fund the bal-

ance of development costs under the project facilities.

Offsetting the increases to fund the development program will be loans retired as properties in the disposition program are sold and the principal amount of loans on troubled projects are reduced through negotiation.

- **Accounts and other payables** Accounts and other payables rose to \$172.2 million in 1990. Included in these accounts are deferred income from land sales and contractor holdbacks relating to construction costs incurred on Brookfield's development projects. The increase in accounts payable is attributable to increased construction activity and accounts payable related to acquired properties.

- **Preference shares of subsidiaries** Preference shares of subsidiaries were increased by the assumption of the obligations relating to \$154.0 million of preference shares secured by Brookfield assets.

Capital Base and Liquidity

Brookfield's principal source of financing has been the secured loan facility provided by BCE and Carena. A \$500 million loan facility was made available in January of 1990 and increased to \$700 million in November 1990. This loan facility was made available to continue Brookfield's development program and to fund operating requirements. Drawings under this facility to December 31, 1990, were comprised of \$617 million in the form of loans and a \$30 million preferred share investment in Brookfield.

Advances to Brookfield under the secured credit facility established by BCE and Carena increased by \$538.5 million during 1990. The Company's Class C preference shares are also considered a utilization of this facility. This facility provided the principal source of funding for the equity required to be invested in Brookfield's five major development projects prior to project financing being made available.

To further strengthen Brookfield's financial base, BCE, at the request of BCED and Brookfield's bankers, exchanged \$101 million of short term preferred shares of a BCED financial subsidiary (which were secured by a note of BCED) into ten year preferred shares of Brookfield. This, together with the \$700 million loan facility referred to above, enabled Brookfield to establish a \$200 million senior secured revolving bank credit facility for operating purposes and to bridge the receipt of funds from the development and sale of its residential land holdings. The undrawn portion of this revolving credit facility was \$65 million at December 31, 1990.

In addition, during the course of 1990, the Company negotiated project financings for five major development properties, one of which had been drawn upon at December 31, 1990. The total amount of these facilities is \$804 million, of which \$728 million remained undrawn at December 31, 1990. These facilities are drawn on a "cost to complete" basis and require Brookfield to invest a substantial equity component, which in all cases has now been made. The undrawn project facilities are estimated to be sufficient

to cover the remaining construction, development and leasing costs of Brookfield's commercial development program.

The Company expects to generate sufficient cash flow from the sale of assets and the collection of mortgage receivables to provide funds to advance the development of its two residential land holdings and to cover its operating requirements in 1991.

Proposed Financial Restructuring

The Company's business plan endorses a balanced growth strategy aimed at reporting a respectable and growing cash flow from its long term property investments in the relatively short term, thereby ensuring access to favourably priced debt financing for the completion of its development projects and for permanent financing of completed projects.

In January 1990, BCE and Carena agreed to provide the Company with a \$500 million interim secured credit facility, which was subsequently increased to \$700 million. It had been intended that Brookfield would proceed with a common share rights offering of at least \$500 million prior to June 30, 1991 under which advances made pursuant to the interim facility would be converted to equity in support of the rights offering. The rights offering and equity conversion was to be priced to obtain a meaningful public participation in the offering, thereby requiring an appropriate discount to the market value of Brookfield's assets to reflect the discount to value at which public real estate companies typically trade in the public markets. Under the terms of the credit facility, all loans there-

under were to become due on July 15, 1991 if the rights offering was not proceeded with by June 30, 1991.

A committee of Independent Members of the Board of Directors was formed in June 1990 to review and to provide recommendations to the Board of Directors regarding the terms and conditions of the proposed Brookfield common share rights issue. The Independent Committee is authorized to engage such advisors as it considers necessary to carry out properly its responsibilities. The Independent Committee concluded in June 1991 that it was an inopportune time to effect the rights issue to public securityholders. The Committee drew attention to the difficulties in establishing an overall equity value attributable to Brookfield due to the uncertainties currently prevailing in the North American real estate markets and the current difficulties inherent in valuing a number of Brookfield's development properties, particularly those which are either under construction or have substantial leasing yet to be completed. The Committee also expressed reservations about the ability of the Company to carry out its proposed rights issue, at this time, on any basis that would result in reasonable value to the public securityholders who participated or that would have any likely prospect of obtaining a meaningful level of public participation.

Taking into consideration these factors, the Independent Committee recommended that the Board of Directors seek an agreement with BCE and Carena to extend the maturity of their secured loans thereby permitting the

rights offering and the conversion of the BCE and Carena loans to be deferred. The Independent Committee also recommended that BCED seek a delay in the claims of other securityholders. Although the Committee recognized that values may not be restored during this deferral period, it decided that the possibility of realizing greater value for BCED's interest in Brookfield should be preserved to the extent possible.

Pursuant to this recommendation of the Independent Committee, an agreement was reached with BCE and Carena to defer the maturity of their loans to April 30, 1993 in contemplation of a rights offering and equity conversion to occur during the first quarter of 1993, based on values prevailing as at December 31, 1992. The extension agreement is conditional on BCE and Carena receiving satisfactory evidence that Brookfield's commercial banks and project lenders will continue to support Brookfield. Since Brookfield's secured loan facilities are guaranteed and secured by BCED, BCED's creditors are also expected to similarly defer the enforcement of any claims during this period. If the creditors of BCED do not comply with the conditions of the deferral arrangements, BCE and Carena will be entitled to take such proceedings as they consider appropriate to protect their secured loan to Brookfield which may include the commencement of realization or other enforcement proceedings. If this were to occur, BCE and Carena have stated that they intend to work with Brookfield with a view to completing the development program and safeguarding the interests of Brookfield's commercial

banks and project lenders as well as trade creditors.

BCED's Board of Directors has concluded that the deferral arrangements are in the best interests of its creditors and shareholders and plans to encourage each of the various constituents to accept its conditions.

Business Outlook

The next two years are critical years for Brookfield. By the end of 1991 Brookfield will have completed acquisitions of properties from other BCED subsidiaries as a result of assisting BCED with their restructuring activities. Construction of the development projects will be complete and effort will be directed toward advancing the lease-up of these prime commercial projects in Toronto, Montreal, Minneapolis, Chicago and Orange County.

Although rental markets are soft and are expected to remain so throughout 1991, the difficulties experienced by the North American real estate markets in 1990 have forced a return to sound development practices, resulting in a marked reduction in new construction activity. Brookfield's projects are of the highest quality, located in prime sites in their respective markets and are well positioned to compete for tenants in increasingly discriminating markets.

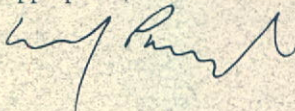
MANAGEMENT REPORT TO THE SHAREHOLDERS

The consolidated financial statements of Brookfield Development Corporation have been prepared by management of the Company in accordance with generally accepted accounting principles appropriate for the real estate industry.

Management maintains financial and management reporting systems which include appropriate and cost effective controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information. Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

External auditors appointed by the shareholders have examined the consolidated financial statements. An Audit Committee appointed by the Board of Directors of the Company has reviewed these statements with management and the external auditors and has reported to the Board. The Board has approved the consolidated financial statements.

All other financial and operating data included in the annual report are consistent, where appropriate, with information contained in the consolidated financial statements.



William J. Pringle
Senior Vice President and Controller


AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Brookfield Development Corporation as at December 31, 1990 and 1989, and the consolidated statements of operations, retained earnings (deficit), cash flow (deficiency) from operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and 1989, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
June 13, 1991




Chartered Accountants

CONSOLIDATED BALANCE SHEET

<i>As at December 31</i>	<i>Note Reference</i>	1990	1989
(in thousands of dollars)			
ASSETS			
Properties:			
Rental	2	\$1,403,411	\$ 395,554
Held for sale	3	423,421	93,922
		1,826,832	489,476
Mortgages and notes receivable	4	203,380	54,605
Cash and term deposits	5	46,489	10,451
Amounts receivable		10,840	511
Other assets		5,463	155
		\$2,093,004	\$ 555,198
LIABILITIES			
Debt on properties:			
Rental	6,10	\$ 814,198	\$ 196,701
Held for sale		109,865	—
		924,063	196,701
Other secured liabilities	6,10	38,635	—
Secured bank indebtedness	7	135,211	—
Accounts and other payables	8	172,191	25,906
		1,270,100	222,607
PREFERENCE SHARES OF SUBSIDIARIES	9	154,000	—
CONTINGENCIES AND COMMITMENTS	10		
CAPITAL BASE			
Secured loans	11	617,054	78,582
Shareholders' equity	12	51,850	254,009
		668,904	332,591
		\$2,093,004	\$ 555,198

Approved by the Directors:



Gordon E. Arnell, Director



Warren Chippindale, Director

CONSOLIDATED STATEMENT OF OPERATIONS

<i>For the years ended December 31</i>	<i>Note Reference</i>	1990	1989
		(in thousands of dollars)	
REVENUE			
Rental		\$ 58,073	\$ —
Net income from real estate sales		4,422	—
Interest and other		18,245	4,849
Total revenue		80,740	4,849
EXPENSES			
Rental operating costs		31,255	—
Interest	13	50,033	622
General and administrative		4,789	—
Depreciation and amortization		4,618	—
Other		1,566	778
Total expenses		92,261	1,400
NET OPERATING INCOME (LOSS)		(11,521)	3,449
Provision for income taxes	14	1,040	2,500
Preference share dividends of subsidiaries		954	—
NET INCOME (LOSS) BEFORE UNDERNOTED ITEM		(13,515)	949
Provision for diminution in property values	15	(61,094)	—
NET INCOME (LOSS)		\$ (74,609)	\$ 949

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(DEFICIT)**

<i>For the years ended December 31</i>	1990	1989
	(in thousands of dollars)	
Retained earnings, beginning of year	\$ 26,581	\$ 25,632
Net income (loss)	(74,609)	949
	(48,028)	26,581
Dividends		
Class C Preference Shares	1,819	—
Class D Preference Shares	3,454	—
	5,273	—
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ (53,301)	\$ 26,581

**CONSOLIDATED STATEMENT OF CASH FLOW
(DEFICIENCY) FROM OPERATIONS**

<i>For the years ended December 31</i>	1990	1989
	(in thousands of dollars)	
Net operating income (loss)	\$ (11,521)	\$ 3,449
Items not requiring a current outlay of cash:		
Depreciation and amortization	4,618	—
CASH FLOW (DEFICIENCY) FROM OPERATIONS	\$ (6,903)	\$ 3,449

**CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION**

<i>For the years ended December 31</i>	1990	1989
	(in thousands of dollars)	
OPERATIONAL ACTIVITIES		
Cash flow (deficiency) from operations	\$ (6,903)	\$ 3,449
Recovery of real estate costs through sales of properties	13,698	—
Net increase in mortgages, notes, receivables and other assets	(19,035)	(2,201)
Debt discharged through sales of properties	(8,821)	—
Net decrease in other secured liabilities	(9,633)	—
Net increase in accounts payable and accruals	66,311	8,653
NET CASH FLOW FROM OPERATIONAL ACTIVITIES	35,617	9,901
INVESTMENT ACTIVITIES		
Cash used to develop properties:		
Rental	298,607	96,772
Held for sale	44,872	—
Cash used to acquire properties (see also note 19E)	309,059	173,001
CASH APPLIED TO INVESTMENT ACTIVITIES	652,538	269,773
FINANCING ACTIVITIES		
Net increase in secured loans	539,018	78,582
Proceeds from common shares issued	80,993	177,927
Proceeds from preference shares issued	30,000	—
Assumption of preference shares of subsidiaries	154,000	—
Dividends and dividends of subsidiaries	(6,227)	—
Secured advances to parent	(237,403)	(74,365)
Net (decrease) increase in debt on properties	(48,686)	88,271
Net increase in bank indebtedness	135,211	—
Translation adjustment	6,053	(105)
NET CASH PROVIDED FROM FINANCING ACTIVITIES	652,959	270,310
INCREASE IN CASH AND TERM DEPOSITS	\$ 36,038	\$ 10,438

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. General

Brookfield Development Corporation (Brookfield or the Company) is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

The Company is currently the wholly-owned, principal operating subsidiary of BCE Development Corporation (BCED), a public company. Although Brookfield is not a public company, these financial statements are substantially in compliance with the standards applicable to public real estate companies in order to provide Brookfield's lenders, BCED's creditors and other securityholders, and other interested parties with financial information concerning Brookfield and its subsidiaries.

BCED has announced that it will be making a proposal to its creditors and shareholders to restructure its affairs prior to the end of the first quarter of 1993. The restructuring is expected to include a common share rights offering of Brookfield that would be made to the holders of BCED's public securities, and a conversion of the secured loans made by BCE Inc. (BCE) and Carena Developments Limited (Carena) into common shares of Brookfield in support of this financial restructuring, subject to the receipt of all requisite regulatory and other approvals (see also note 11). As a result, these financial statements have been prepared showing the \$617 million of secured loans from BCE and Carena as part of Brookfield's Capital Base at December 31, 1990. The rights offering and conversion of the secured loans may result in Brookfield becoming a public company and, depending on real estate values at the time, Brookfield may cease to be a subsidiary of BCED.

In addition, the shareholders' equity of the Company has been presented net of secured and unsecured advances due to the Company from BCED (see also note 12D). Earnings per share have not been disclosed because BCED currently holds all of the outstanding common shares of the Company.

B. Principles of Consolidation

The consolidated financial statements of the Company include the accounts of all companies in which Brookfield Development Corporation has effective control.

Also included are the accounts of all incorporated and unincorporated joint ventures and partnerships in which the Company has an interest, to the extent of the Company's interest in their respective assets, liabilities, revenues and expenses.

C. Rental Properties

(i) Carrying Values

Rental properties held for investment are carried at the lower of cost less accumulated depreciation, and net recoverable amount. Depreciation on buildings is provided on the sinking fund basis over a 50-year life. The sinking fund method provides for a depreciation charge of a fixed annual amount increasing at the rate of 5% per annum, which will result in the properties being fully depreciated over their estimated useful lives. Depreciation is determined with reference to the property's carrying value. Properties under development or held for development for retention as income producing properties, are carried at the lower of cost and net recoverable amount.

The net recoverable amount represents the estimated future net cash flow expected to be received from the ongoing use and residual worth of the property. To arrive at this amount, the Company has projected the cash flows for each property on an undiscounted basis and as a result of not discounting the cash flows, the carrying value may be greater than the market value. The projections take into account the specific business plan for the property and the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Revenue Recognition

Rental income is not recognized until the earlier of attaining a break-even point in cash flow after debt service or the expiration of a reasonable period of time following substantial

completion. Prior to this time, rental property is categorized as a rental property under development and revenue related to such property is applied to reduce development costs.

Upon the sale of a rental property, the Company recognizes a gain or loss when all material conditions of the sale have been fulfilled and a down payment that is appropriate in the circumstances has been received having regard to the financial resources of the purchaser.

D. Properties Held For Sale

(i) Carrying Values

As part of the annual review of the Company's assets, properties are identified which no longer meet the Company's long term investment requirements. These properties are carried at the lower of cost and net realizable value. Net realizable values have been determined on the basis of management's assumptions and projections about future economic conditions and events. Material differences in values may arise if actual results are not consistent with these assumptions.

(ii) Revenue Recognition

Upon the sale of a property, the Company recognizes a gain or loss when all material conditions of the sale have been fulfilled and a down payment that is appropriate in the circumstances has been received having regard to the financial resources of the purchaser.

E. Capitalized Charges

The Company capitalizes all direct costs relating to properties under development, properties held for future development and properties held for sale that are under or held for future development. In addition, certain other costs including interest on specific and general debt, initial tenant inducements and leasing costs, and property taxes are capitalized to these properties. Where overhead costs, including salaries, are identified with a property, the Company capitalizes these costs to that property.

F. Depreciation and Amortization of Other Assets

Depreciation is generally computed on the straight-line method using rates based on the estimated useful lives of the assets. Deferred financing costs are amortized over the term of the financing after giving effect to principal repayments.

G. Foreign Exchange

Asset and liability accounts in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at the weighted average rate prevailing during the year. Gains or losses from foreign currency translations, other than on the Company's investments in foreign operations, are included in the consolidated statement of operations. The gains and losses from the foreign currency translations of the Company's investments in foreign operations are deferred and included in shareholders' equity.

2. Rental Properties (See also Note 15)

The Company's rental properties consist of office buildings, retail facilities and mixed use urban projects.

	1990	1989
	(in thousands of dollars)	
Income producing	\$ 510,469	\$ 131,968
Accumulated depreciation	13,026	5,002
	497,443	126,966
Under development	811,165	268,588
Held for future development	94,803	—
	\$1,403,411	\$ 395,554

3. Properties Held for Sale (See also Note 15)

The Company's properties held for sale consist of suburban shopping centres, commercial development sites and residential lands under development for subsequent sale.

4. Mortgages and Notes Receivable

Mortgages and notes receivable yield a weighted average interest rate of 9.9% (1989 - 10.4%) per annum and mature as follows:

	(in thousands of dollars)
Years ending December 31, 1991	\$ 54,927
1992	96,063
1993	3,759
1994	2,162
1995	3,121
Subsequent to 1995	43,348
	<hr/> \$203,380 <hr/>

5. Cash and Term Deposits

Included in cash and term deposits are amounts totalling \$39,855,000 (1989 - \$4,992,000) which can be applied only to specific liabilities, or become available to the Company in the future.

6. Debt on Properties and Other Secured Liabilities (See also Note 10)

	1990				1989	
	Fixed Rate Financing		Variable Rate Financing		Total	Total
	Limited Recourse	Recourse	Limited Recourse	Recourse		
	(in thousands of dollars)					
DEBT ON PROPERTIES:						
Rental	\$491,074	\$109,577	\$ —	\$213,547	\$814,198	\$196,701
Held for sale	—	11,108	7,387	91,370	109,865	—
	491,074	120,685	7,387	304,917	924,063	196,701
OTHER SECURED LIABILITIES:						
Mortgages and notes receivable	—	3,460	—	35,175	38,635	—
	\$491,074	\$124,145	\$ 7,387	\$340,092	\$962,698	\$196,701

Fixed rate financing bears interest at a weighted average rate of 9.0% (1989 - 8.0%) per annum.

The maturity schedule of the debt, subject to certain creditor rights described in Note 10, is as follows:

	Fixed Rate Financing	Variable Rate Financing	Total
(in thousands of dollars)			
Years ending December 31, 1991	\$ 8,069	\$ 49,441	\$ 57,510
1992	3,008	43,666	46,674
1993	3,336	122,072	125,408
1994	5,732	110,172	115,904
1995	6,604	—	6,604
Subsequent to 1995	588,470	22,128	610,598
	\$615,219	\$347,479	\$962,698

7. Secured Bank Indebtedness (See also Note 11)

The Company has established a secured revolving credit facility of \$200 million with three chartered banks. Interest on borrowings under the facility is at floating rates. Borrowings are secured by charges on substantially all of the Company's assets. The BCE and Carena secured credit facility established for Brookfield is subordinated in favour of the \$200 million secured bank indebtedness.

8. Accounts and Other Payables

	1990	1989
(in thousands of dollars)		
Trade payables and accrued liabilities	\$ 70,690	\$ 7,700
Construction accruals and holdbacks	56,342	14,137
Notes payable	3,960	—
Accrued interest on project debt and other secured liabilities	6,281	321
Costs to complete properties sold	13,095	382
Deferred income and deposits	18,457	—
Deferred income taxes	3,366	3,366
	\$172,191	\$25,906

9. Preference Shares of Subsidiaries

Authorized	Issued and Outstanding		1990	1989
(in thousands of dollars)				
		BCED Capital I Corporation		
Unlimited	2,000,000	7.25% Preference Shares, Series 1	\$ 50,000	—
		BCE Place Finance Corporation		
2,496,000	2,496,000	7.375% Preference Shares, Series 1	62,400	—
1,664,000	1,664,000	7.75% Preference Shares, Series 2	41,600	—
			\$154,000	—

The preference shares represent obligations of subsidiaries of the parent that must be fulfilled in order to maintain the Company's interest in certain assets. The assets were pledged as security under support agreements relating to these preference shares. The Company intends to take all steps necessary to ensure the obligations to these preference shareholders are honoured. To this end, the Company has entered into arrangements which assure compliance with the terms of these preference shares. These arrangements provide that the Company may fund the payment of dividends or redemption of shares, if necessary.

A. BCED Capital I Corporation:

7.25% Cumulative Redeemable Retractable Preference Shares, Series 1 have fixed cumulative preferential cash dividends of \$1.8125 per share per annum which are payable quarterly.

The shares are redeemable at the option of the company, in whole or in part, after March 31, 1991 at \$25.50 per share declining to \$25 per share after March 31, 1993 plus accrued dividends.

The shares are retractable at the option of the holder on March 31, 1994 and thereafter on the last day of March in each year at \$25 per share plus accrued dividends.

An affiliated company is obligated to purchase the shares in the event that dividend or redemption payments on the shares are not made or upon the occurrence of certain other events. This obligation is secured by a bankers' acceptance issued by a Canadian chartered bank, which in turn is secured by a property owned by the Company. BCED is obligated to subscribe for sufficient common shares of BCED Capital I Corporation to enable it to make dividend and other payments on the shares.

B. BCE Place Finance Corporation:

7.375% Cumulative Redeemable Retractable Preference Shares, Series 1 and 7.75% Cumulative Redeemable Retractable Preference Shares, Series 2 have fixed cumulative preferential cash dividends of \$1.84375 and \$1.9375 per share per annum respectively, payable quarterly.

The Series 1 preference shares are redeemable at the option of the company, in whole or in part, after June 30, 1994 at \$25.75 per share declining to \$25 per share after June 30, 1997 plus accrued dividends. The Series 2 preference shares are redeemable at the option of the company, in whole or in part, after June 30, 1997 at \$26 per share declining to \$25 per share after June 30, 2002 plus accrued dividends.

The Series 1 and Series 2 preference shares are retractable at the option of the holder on June 30, 1997 and June 30, 2002 respectively, in each case at \$25 per share plus accrued dividends.

BCED must ensure the purchase of the shares in the event dividend or redemption payments on the shares are not made and in certain other events. This obligation is guaranteed by BCE, with the guarantee being secured by property owned by the Company.

10. Contingencies and Commitments (See also Note 6)

A. The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to \$156,600,000 (1989 - \$42,300,000). However, the available assets of each joint venture or partnership are, in management's opinion, adequate to satisfy the obligations.

B. The Company has entered into lease agreements for terms of up to 97 years (1989 - 98 years). The maximum annual rental payments required are \$11,467,000 (1989 - \$6,503,000) and in the aggregate they total \$1,056,769,000.

Payments required for each of the next five years are as follows:

1991	\$11,195,000
1992	\$ 9,919,000
1993	\$10,149,000
1994	\$ 9,878,000
1995	\$ 9,642,000

C. The Company has estimated that costs of \$754,300,000 (1989 - \$635,000,000) are required to complete rental properties under development, a significant proportion of which relates to the BCE Place project in Toronto. Financing facilities have been arranged for the total estimated costs (1989 - \$562,000,000).

D. The estimated cost to complete properties held for sale amounts to \$199,700,000 (1989 - Nil). These costs will be financed through the proceeds of sale of these properties or by drawing on financing commitments totalling \$110,400,000 (1989 - Nil).

E. The Company is in breach of covenants related to certain debt secured by specific properties. In each case discussions are taking place with the lender with respect to renegotiating the terms of this debt. There are also contingent claims with respect to similar negotiations which were concluded prior to year end, and the Company is contingently liable under guarantees that were issued in the normal course of business. Management is of the opinion that these contingencies have been adequately provided for in the accounts.

F. The Company has been named as a defendant in numerous lawsuits alleging actual and punitive damages, the total of which is substantial. There is considerable uncertainty as to the final outcome of these lawsuits. Due to the complexity of the matters involved, the actual costs of settling the litigation can not be determined. However, after reviewing the merits of these lawsuits with counsel and considering counsel's opinion, management believes that adequate provision has been made in the accounts with respect to these claims, after taking into account amounts covered by insurance and indemnities given by others.

11. Secured Loans (See also Note 19)

BCE and Carena, through a company controlled by them, have established a secured loan facility for Brookfield of \$700 million, excluding interest advances. Advances under this facility are secured by charges on substantially all of the Company's assets and are guaranteed by the Company's parent. The credit facility bears interest at variable rates with the interest rate fluctuating with market rates. In addition, \$30,000,000 of the facility has been drawn down through the issuance of the Company's Class C Preference Shares.

This credit facility was to have matured on July 15, 1991 if Brookfield had not proceeded with a rights offering by June 30, 1991. BCE and Carena have agreed to defer the maturity of their loans until April 30, 1993 in contemplation of a rights offering and equity conversion based on values prevailing as at December 31, 1992. This extension agreement is conditional on BCE and Carena receiving satisfactory evidence that Brookfield's project lenders and commercial banks will continue to support Brookfield and on the Company's other creditors, including any creditors of BCED, similarly deferring the enforcement of any claims during this period. If the other creditors of the Company and BCED do not abide by the conditions of the deferral arrangements, BCE and Carena will be entitled to take such proceedings as they consider necessary to protect their secured loans, which might include the commencement of realization or other proceedings. If this occurs, BCE and Carena have stated that they intend to work with Brookfield with a view to completing the development program and safeguarding the interests of Brookfield's commercial banks and project lenders, as well as its trade creditors.

The agreement providing for the extension of the BCE and Carena credit facility provides for all advances to be applied to the purchase of the Company's common shares in support of a financial restructuring to be concluded during the first quarter of 1993, subject to the receipt of all requisite regulatory and other approvals. It is expected that the restructuring will include the rights offering referred to above, which will be priced at an appropriate discount to the market value of Brookfield's assets to ensure a meaningful public participation in the offering.

12. Shareholders' Equity

		1990	1989
		(in thousands of dollars)	
	Note Reference		
Preference shares	12 (A)	\$ 131,122	\$ —
Common shares	12 (B)	109,347	28,354
Contributed surplus	12 (C)	80,619	177,927
Retained earnings (Deficit)		(53,301)	26,581
Secured advances (to) from parent	12 (D)	(215,937)	21,147
		\$ 51,850	\$254,009

Shares

Authorized -

Unlimited	Class A Preference Shares without par value, issuable in series.
Unlimited	Class B Preference Shares without par value, issuable in series.
Unlimited	Class C Preference Shares without par value, issuable in series, of which 1,200,000 are designated as Class C Preference Shares, Series 1.
Unlimited	Class D Preference Shares without par value, issuable in series, of which 4,300,000 are designated as Class D Preference Shares, Series 1.
Unlimited	Common Shares, voting, without par value

Issued and Outstanding -

		1990	1989
		(in thousands of dollars)	
Preference Shares			
1,200,000	Class C Preference Shares, Series 1	\$ 30,000	\$ —
4,044,872	Class D Preference Shares, Series 1	101,122	—
		\$131,122	\$ —
Common Shares			
245,994	Common Shares	\$109,347	\$ 28,354

A. Preference Shares:

(i) Class C Preference Shares, Series 1

Cash dividends are payable semi-annually at a rate equivalent to 70% of the prime lending rate charged by a Canadian Schedule 1 bank.

The shares are redeemable, in whole or in part, at the option of the Company at any time after five years and one business day from the date of issue of the shares. The shares are retractable at the option of the holder upon the first to occur:

- (a) five years and one business day from the date of issue of the shares; or
- (b) the Board of Directors passing a resolution approving the issue of common shares of the Company in connection with a rights offering made to shareholders or other investors in BCED or with any other form of public offering of the common shares of the Company.

Dividends of \$1,819,000 on the Class C Preference Shares, Series 1 were accrued but unpaid at December 31, 1990.

(ii) **Class D Preference Shares, Series 1**

Cash dividends are payable quarterly at a rate equivalent to 70% of the prime lending rate charged by a Canadian Schedule 1 bank.

The shares are redeemable, in whole or in part, at the option of the Company at any time and are retractable at the option of the holder, BCE, on or after August 31, 2000, or if two dividend payments are in arrears or upon the occurrence of certain other events.

Dividends of \$2,385,000 on the Class D Preference Shares, Series 1 were paid at December 31, 1990. Subsequent to this date dividends have been suspended on this series of preference shares (see also note 19C).

B. Common Shares:

The following is a summary of the activity in the Company's Common Share Capital account:

	1990		1989	
	Common Shares	Amount	Common Shares	Amount
Balance, beginning of year	1,001	\$ 28,354,000	1,001	\$28,354,000
Common shares issued for property acquired	80,993	80,993,000	—	—
Common shares issued for purchase of subsidiary	164,000	—	—	—
Balance, end of year	245,994	\$109,347,000	1,001	\$28,354,000

C. Contributed Surplus:

The following is a summary of the activity in the Company's Contributed Surplus account:

	1990	1989
	(in thousands of dollars)	
Contributed surplus, beginning of year	\$177,927	\$ —
Contributed surplus arising on purchase of subsidiary	164,000	177,927
	341,927	177,927
Less unsecured advances to parent (see also note 12D)	261,308	—
Contributed surplus, end of year	\$ 80,619	\$177,927

D. Secured and Unsecured Advances to Parent

Both the secured and unsecured advances to parent arose from capital transactions with BCED. The secured advances to BCED are secured by charges on substantially all of BCED's assets, including the Company's common shares held by BCED. In recognition of the reciprocal nature of the security, the advances are shown as a deduction from the shareholders' equity and contributed surplus.

13. Interest

	1990	1989
	(in thousands of dollars)	
Interest charges were incurred from:		
Project debt and other secured liabilities	\$ 103,915	\$ 18,619
Other interest	562	319
	104,477	18,938
Less interest directly capitalized or allocated to properties	54,444	18,316
	\$ 50,033	\$ 622

14. Income Taxes

The provision for income taxes of \$1,040,000 (1989 - \$2,500,000) is primarily due to the large corporation tax in Canada.

The Company and its subsidiaries have accumulated tax losses of approximately \$15,000,000 (1989 - \$1,000,000), which will expire in 1997. The potential benefit of the use of these losses has not been reflected in the financial statements.

15. Provision for Diminution in Property Values

The Company conducts an annual review of the carrying values of its properties. Properties identified for possible sale have been restated at the lower of cost and net realizable value, and all other properties are stated at the lower of depreciated cost and net recoverable amount. The following is a summary of the activity in the provision for diminution accounts:

	1990	1989
	(in thousands of dollars)	
Balance, beginning of year	\$ 79,473	\$ —
Provision on acquired properties (see also note 19E)	150,280	80,145
Provision made during the year	61,094	—
	290,847	80,145
Less applied during the year on sale of assets, and properties restructured	1,967	672
Balance, end of year	\$ 288,880	\$ 79,473

16. Capitalized Costs

	1990	1989
	(in thousands of dollars)	
During the year the Company capitalized the following costs:		
Interest	\$ 54,444	\$ 18,316
Property taxes	7,466	1,122
General and administrative	8,730	4,317
Net operating income from properties under development	(7,899)	(168)
	<hr/> \$ 62,741	<hr/> \$ 23,587
These costs were capitalized to properties as follows:		
Rental properties	\$ 55,048	\$ 23,587
Properties held for sale	7,693	—
	<hr/> \$ 62,741	<hr/> \$ 23,587

17. Joint Ventures and Partnerships

The following amounts included within the consolidated financial statements represent the Company's proportionate share in joint ventures and partnerships:

	1990	1989
	(in thousands of dollars)	
Assets	\$574,026	\$268,615
Liabilities	241,269	53,621
Revenues	22,203	—
Expenses	23,828	—

18. Segmented Information

By Property Type	Real estate sales		Rental revenue		Total	
	1990	1989	1990	1989	1990	1989
(in thousands of dollars)						
REVENUE						
Rental properties	\$ —	\$ —	\$ 55,209	\$ —	\$ 55,209	\$ —
Properties held for sale	18,120	—	2,864	—	20,984	—
	\$ 18,120	\$ —	\$ 58,073	\$ —	\$ 76,193	\$ —
OPERATING INCOME						
Rental properties	\$ —	\$ —	\$ 24,980	\$ —	\$ 24,980	\$ —
Properties held for sale	4,422	—	1,838	—	6,260	—
	\$ 4,422	\$ —	\$ 26,818	\$ —	\$ 31,240	\$ —
Unallocated corporate items, net					(42,761)	3,449
Net operating income (loss)					\$ (11,521)	\$ 3,449
By Country	Real estate sales		Rental revenue		Total	
	1990	1989	1990	1989	1990	1989
(in thousands of dollars)						
REVENUE						
Canada	\$ 18,052	\$ —	\$ 6,384	\$ —	\$ 24,436	\$ —
United States	68	—	51,689	—	51,757	—
	\$ 18,120	\$ —	\$ 58,073	\$ —	\$ 76,193	\$ —
OPERATING INCOME						
Canada	\$ 4,508	\$ —	\$ 3,864	\$ —	\$ 8,372	\$ —
United States	(86)	—	22,954	—	22,868	—
	\$ 4,422	\$ —	\$ 26,818	\$ —	\$ 31,240	\$ —
Unallocated corporate items, net					(42,761)	3,449
Net operating income (loss)					\$ (11,521)	\$ 3,449
	Real estate properties		Other assets		Total	
	1990	1989	1990	1989	1990	1989
(in thousands of dollars)						
ASSETS						
Canada	\$ 679,153	\$ 268,588	\$ 52,235	\$ 60,235	\$ 731,388	\$ 328,823
United States	1,147,679	220,888	213,937	5,487	1,361,616	226,375
	\$ 1,826,832	\$ 489,476	\$ 266,172	\$ 65,722	\$ 2,093,004	\$ 555,198

19. Transactions with Related Parties and Carena

A. The Company is a wholly-owned subsidiary of BCED, and BCED is approximately 67% owned by BCE. BCE entered into an agreement with Carena whereby Carena undertook to provide management services to the Company. In the normal course of business, the Company leases space and enters into other contracts with BCE, Carena and their respective affiliated companies. All transactions with related parties and with Carena (including parties related thereto) are conducted on terms and conditions comparable to those with third parties.

B. BCE and Carena, through a company controlled by them, have granted a secured loan facility of \$700 million, excluding interest advances, to the Company. Advances under this facility are secured by charges on substantially all of the Company's assets. The credit facility bears interest at variable rates with the interest rate on this debt fluctuating with market rates. The Company, BCED, BCE and Carena have agreed, subject to certain conditions, to extend the facility to April 30, 1993 (see also note 11). The total interest paid on this facility amounted to \$41,423,000 in 1990 (1989 - \$303,000). In addition, \$1,819,000 of accrued but unpaid dividends have been earned on the Company's Class C Preference Shares, as of December 31, 1990.

C. During the year BCE, at the request of BCED and the Company's principal banks, acquired \$101,122,000 of Class D Preference Shares of the Company in exchange for short term preference shares of an affiliate, the common shares of which were subsequently acquired by the Company (see also note 12B).

D. At December 31, 1990, Carena held a restricted deposit in the amount of U.S. \$10,000,000 for expected financing requirements on one of the Company's US projects.

E. During the year Brookfield and its subsidiaries acquired net assets of \$36,020,000 (1989 - nil) from BCED and \$273,039,000 (1989 - \$173,001,000) from BCED's subsidiaries. This acquisition was substantially financed by advances under the secured loan from BCE and Carena. The following table summarizes the assets acquired and liabilities assumed as of the acquisition dates.

	1990	1989
	(in thousands of dollars)	
Properties	\$1,077,988	\$ 221,184
Mortgages and other assets	147,234	667
	1,225,222	221,851
Debt on properties	788,271	42,020
Accounts and other payables	127,892	6,830
Cash used to acquire properties from BCED and its subsidiaries	\$ 309,059	\$ 173,001

PRINCIPAL PROPERTIES

OFFICE BUILDINGS

In Operation	Ownership Interest	Total Rentable Area (sq.ft.)
Toronto		
BCE Place - Canada Trust Tower	40%	1,182,000
Northern Telecom 320 Bay Street	50%	214,000
	100%	294,000
Chicago		
Quaker Tower	10%	845,000
Minneapolis		
IDS Center	50%	1,228,000
Minneapolis City Center	100%	1,081,000
St. Paul		
Minnesota World Trade Center	50%	465,000
Denver		
Denver World Trade Center	100%	734,000
Total - Office Buildings in Operation		6,043,000

Under Construction

Montreal		
1000 de la Gauchetière	35%	1,035,000
Toronto		
BCE Place - Bay Wellington Tower	100%	1,373,000
Minneapolis		
Dain Bosworth Plaza	100%	594,000
Orange County		
Imperial Promenade	100%	239,000
Total - Office Buildings Under Construction		3,241,000

RETAIL CENTRES

In Operation

Chicago		
Chicago Place	50%	311,000
Minneapolis		
IDS Center	50%	192,000
Minneapolis City Center	100%	457,000
Gaviidae Common	50%	241,000
St. Paul		
Minnesota World Trade Center - Town Court	50%	145,000
Vancouver		
Park & Tilford ⁽¹⁾	100%	176,000
California		
Corona Hills Plaza ⁽¹⁾	50%	375,000
Melrose Village Plaza ⁽¹⁾	50%	137,000
Los Altos ⁽¹⁾	100%	210,000
Seattle		
Westwood Village ⁽¹⁾	100%	220,000
Total - Retail Centres in Operation		2,464,000

Under Construction

Minneapolis		
Gaviidae Phase II (Dain Bosworth Plaza)	100%	183,000

LAND HELD FOR DEVELOPMENT OR SALE

	Ownership Interest	Net Acres
Calgary		
Sunridge ⁽¹⁾	100%	184
Horizon ⁽¹⁾	100%	20
Lincoln ⁽¹⁾	100%	29
Other Commercial ⁽¹⁾	50%	35
Other Residential ⁽¹⁾	100%	442
Edmonton		
Ellerslie ⁽¹⁾	100%	1,345
Other ⁽¹⁾	100%	146
San Diego County		
La Costa ⁽¹⁾	24%	2,400
Scripps Ranch North ⁽¹⁾	70%	1,196
Total - Land		5,797

URBAN DEVELOPMENT SITES

		Square Feet
Chicago		
669 North Michigan Avenue ⁽¹⁾	100%	23,500
Illinois World Trade Center Lands ⁽¹⁾	100%	103,000
Denver		
Centerstone ⁽¹⁾	100%	100,000
Block 197 ⁽¹⁾	100%	25,500
Orange County		
MacArthur Place	73%	2,091,000
Total Urban Development Sites		2,343,000

RESIDENTIAL UNITS

		Units
Chicago		
Chicago Place Residential - 700 N. Michigan ⁽¹⁾	60%	204

(1) Held for Sale

BOARD OF DIRECTORS

GORDON E. ARNELL

President and Chief Executive Officer
Brookfield Development Corporation
Toronto

KEVIN E. BENSON

President and Chief Executive Officer
Trizec Corporation Ltd.

WARREN CHIPPINDALE ⁽¹⁾

Company Director
Formerly Chairman and Chief Executive Partner
Coopers & Lybrand
Montreal

JACK L. COCKWELL ⁽¹⁾

President
Brascan Limited
Toronto

JOSEF J. FRIDMAN

Senior Vice President
Law and Corporate Services
BCE Inc.
Montreal

WILLARD J. L'HEUREUX

Managing Partner and President
Hees International Bancorp Inc.
Toronto

GERALD T. McGOEY

Executive Vice President
and Chief Financial Officer
BCE Inc.
Montreal

JOHN R. McCAIG ⁽²⁾

Chairman and Chief Executive Officer
Trimac Limited
Calgary

ALLAN S. OLSON ⁽²⁾

Formerly Chairman and Chief Executive Officer
Banister Continental Limited
Edmonton

JOHN A. RHIND ^{(1) (2)}

Chairman of the Executive Committee
of the Board
Confederation Life Insurance Company
Toronto

L.R. WILSON

President and Chief Operating Officer
BCE Inc.
Montreal

(1) Member of Audit Committee

(2) Member of Independent Directors Committee

CORPORATE OFFICERS

GORDON E. ARNELL

President and Chief Executive Officer

GLENN M. AZUMA

Senior Vice President

JOHN H. BUTLER

Senior Vice President

DAVID FERGUSON

Senior Vice President

LAWRENCE HERBER

Senior Vice President

WARD G. MINIELLY

Vice President Human Resources

EDWIN B. NORDHOLM

Senior Vice President, General Counsel
and Secretary

WILLIAM J. PRINGLE

Senior Vice President and Controller

GRANT E. SARDACHUK

Senior Vice President and Treasurer

WILLIAM B. SEITH

Senior Vice President

ROBERT VISENTIN

Vice President and Corporate Controller

OPERATING MANAGEMENT

CANADA

QUEBEC REGION

Michel E. Saint-Cyr
Senior Vice President

Michel Bédard
Controller

Dawn C. Carpentier
Vice President Leasing and
Development

Michel G. Lee
Vice President Construction

ONTARIO REGION

John W. Campbell
Senior Vice President

Robert L. Boyce
Vice President and General
Manager - BCE Place

Dane Fader
Vice President and Controller

David B. McEwan
Vice President
Marketing and Development

Paul N. Morse
Vice President
Leasing

William H. Parlee
Vice President - Development

John V. Roce
Vice President - Construction

UNITED STATES

MIDWEST/MOUNTAIN REGION

Harold R. Brandt
Senior Vice President

Thomas M. Clairmont
Vice President Operations

Harlan E. Engelmann
Vice President and Controller

Robin M. Keyworth
Vice President
Retail Leasing

Daniel P. Proffitt
Vice President
Office Marketing

Cynthia M. Whiteford
Vice President and
Legal Counsel

WESTERN REGION

H. Gordon MacKenzie
Senior Vice President

John M. Gillespie
Vice President Office Centers

Daniel T. Gray
Vice President Finance

Ronald T. Zimmer
Vice President, Controller and
Treasurer

CORPORATE INFORMATION

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Midwest/Mountain:
4340 Multifoods Tower
Minneapolis City Center
Minneapolis, MN 55402

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