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BF REALTY HOLDINGS LIMITED

ANNUAL REPORT

1993

MESSAGE TO SHAREHOLDERS

Enclosed are the financial statements for the year ended December 31, 1993, indicating a further decline during the year in the Company's condition.

The Company experienced negative cash flow for 1993 amounting to $5.9 million, which was funded by loans made by Brookfield Development Corporation. Brookfield, which is the Company's principal secured lender, has to date refrained from enforcing its rights.

At the end of 1993, the Company's accumulated deficit was $1.1 billion or about the same as at the end of 1992. The deficit would have increased, however, the non-cash recovery of more than $17 million of provisions made in previous years for unsecured obligations that are no longer required, resulted in the Company recording net income for the year amounting to $11.2 million.

On December 2, 1993 BCE Inc. agreed to sell its entire investment in the Company. The transaction was completed on April 12, 1994 with Carena Developments Limited acquiring 81,347,370 of the Company's common shares and 8% debentures in the principal amount of $25 million. All of these securities were subsequently transferred to BF Realty for cancellation for no consideration. As part of these transactions, McLean Watson Group, a private investment company, the president of which is Loudon F. Owen, acquired the balance of the common shares held by BCE (29,821,185 common shares) for nominal consideration. Mr. Owen, who has been a director of the Company since 1991, has agreed to be responsible at the Board level for evaluating alternatives that may be available to the Company.

The Company remains hopeful that the Board will be able to report its conclusions and recommendations by the end of this summer. As the Company has few assets and does not foresee any prospects for operating profitably under its present structure, the ability of the Company to remain a going concern continues to be uncertain. The possibility of a financial restructuring is subject to whether its lenders and securityholders can be persuaded to make meaningful concessions and other contributions. If such agreements cannot be reached, the Board will have to consider proceeding with the liquidation of the Company.

In view of the precarious situation of the Company, BF Realty has not established a date for its annual meeting for the 1993 year, pending completion by the directors of their report on whether a restructuring is feasible or liquidation will be necessary.

On behalf of the Board.

July 6, 1994

MANAGEMENT REPORT TO THE SHAREHOLDERS

The consolidated financial statements of BF Realty Holdings Limited are the responsibility of management. The consolidated financial statements are prepared in accordance with generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

Management maintains a system of internal controls which provide reasonable assurance that, in all material respects, transactions are properly authorized and recorded, financial reporting responsibilities are met and all assets of the Company are safeguarded against loss or unauthorized use. These controls also facilitate the preparation and dissemination of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

Deloitte & Touche, independent external auditors appointed by the shareholders, have audited the consolidated financial statements. The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors, and has recommended their approval by the Board of Directors. The independent auditors have full access to the Audit Committee, with and without management being present. The Board of Directors has approved the consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of BF Realty Holdings Limited as at December 31, 1993 and 1992 and the consolidated statements and pro forma statements of operations, deficit, cash flow 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, 1993 and 1992, 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. Further, in our opinion the pro forma consolidated statements of operations, deficit, cash flow from operations and changes in financial position present fairly, in all material respects, the financial position of the Company for the year ended December 31, 1992 in accordance with the basis of accounting described in Note 2c to the consolidated financial statements.

Deloitte & Touche
Chartered Accountants

Toronto, Ontario
June 30, 1994

CONSOLIDATED BALANCE SHEET

($ thousands) As at December 31,	Note Reference	1993	1992
ASSETS			
Properties held for sale		$ 246	$ 2,288
Mortgages and notes receivable	3	1,363	2,968
Cash and term deposits	4	94	649
Amounts receivable and other assets		66	131
		$ 1,769	$ 6,036
LIABILITIES			
Debt on properties held for sale		$ -	$ 25,581
Secured bank indebtedness		-	2,138
Secured advances payable to Brookfield	5	280,772	267,772
Accounts and other payables	6	43,291	49,728
Subordinated debentures	7	135,066	154,401
		459,129	499,620
SHAREHOLDERS' DEFICIT	9	(457,360)	(493,584)
		$ 1,769	$ 6,036

The Company's ability to continue as a going concern is dependent on the continued cooperation of its creditors, the completion of a financial restructuring and the attainment of profitable operations (See also Note 1).

Approved by the Directors:

William J. Pringle, Director

Loudon F. Owen, Director

CONSOLIDATED STATEMENT OF OPERATIONS

(Brookfield Development Corporation's operating results were consolidated in the accounts for 1992 and are accounted for on the cost basis from January 1, 1993. Pro forma comparative amounts are included for 1992 using the equity method to account for Brookfield.)

($ thousands) *For the years ended December 31,*	*Note Reference*	*1993*	*Pro forma 1992*	*1992*
REVENUE				
Rental		$ -	$ -	$ 92,546
Interest and other		82	123	10,507
		82	123	103,053
EXPENSES				
Rental operating		-	-	50,886
Interest	10	5,679	13,077	54,275
General and administrative		268	393	5,081
Depreciation and amortization		-	-	7,762
Preference share dividends of subsidiaries		-	-	13,122
Net loss from equity investment		-	90,434	-
Provisions and foreign currency losses	12	(17,089)	56,252	131,960
		(11,142)	160,156	263,086
NET INCOME (LOSS)		$ 11,224	$ (160,033)	$ (160,033)
Net income (loss) per Common Share				
Basic and fully diluted		$ 0.01	$ (1.02)	$ (1.02)

CONSOLIDATED STATEMENT OF DEFICIT

($ thousands) For the years ended December 31,	1993	Pro forma 1992	1992
Deficit, beginning of year	$(1,105,636)	$ (945,603)	$ (945,603)
Net income (loss)	11,224	(160,033)	(160,033)
Deficit, end of year	$(1,094,412)	$(1,105,636)	$(1,105,636)

CONSOLIDATED STATEMENT OF CASH FLOW FROM OPERATIONS

($ thousands) For the years ended December 31,	1993	Pro forma 1992	1992
Net income (loss)	$ 11,224	$(160,033)	$(160,033)
Items not requiring a current outlay of cash:			
Depreciation and amortization	-	-	7,762
Net loss from equity investments	-	90,434	-
Provisions and foreign currency losses	(17,089)	56,252	56,252
Provision for diminution in property values	-	-	75,708
Cash flow from operations	$ (5,865)	$ (13,347)	$ (20,311)
Cash flow per Common Share			
Basic and fully diluted	$ (0.09)	$ (0.14)	$ (0.18)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

($ thousands) For the years ended December 31,	1993	Pro forma 1992	1992
Inflows (Outflows)			
OPERATIONAL ACTIVITIES			
Cash flow from operations	$ (5,865)	$ (13,347)	$ (20,311)
Mortgages, notes, amounts receivable and other assets	1,716	(1,421)	129,574
Accounts and other payables	(5,280)	2,230	(30,094)
Cash (applied to) provided from operational activities	(9,429)	(12,538)	79,169
FINANCING ACTIVITIES			
Debt on Properties:			
Funding, net of repayments	(11,420)	3,843	185,767
Discharged through sales of properties	(362)	(18,478)	(32,930)
Secured bank indebtedness	(1,807)	1,990	30,940
Advances and secured capital loans of subsidiary	-	-	86,781
Secured advances payable to Brookfield	13,000	-	-
Subordinated debenture interest	5,665	13,047	13,047
Foreign currency adjustment	1,604	(2,485)	(6,057)
Cash provided from (applied to) financing activities	6,680	(2,083)	277,548
INVESTMENT ACTIVITIES			
Costs capitalized to properties:			
Rental	-	-	(341,951)
Held for sale	(2,207)	(6,271)	(100,039)
Recovery of real estate costs through sale of properties:			
Rental	-	-	12,353
Held for sale	4,401	20,032	32,569
Cash provided from (applied to) investment activities	2,194	13,761	(397,068)
Decrease in cash and term deposits	$ (555)	$ (860)	$ (40,351)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CONTINUATION OF THE BUSINESS

The consolidated financial statements of BF Realty Holdings Limited (BF Realty or the Company) have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business, however, several adverse conditions exist which cast substantial doubt upon BF Realty's ability to continue operations as a going concern.

Virtually all of the resources supporting BF Realty's operations are provided by Brookfield Development Corporation (Brookfield). BF Realty owns all of the outstanding common shares of Brookfield which have been pledged by BF Realty to secure its guarantee of secured capital loans made by Carena Developments Limited (Carena) to Brookfield. These secured capital loans amounted to $1,030,543,000 at December 31, 1993 (1992 - $917,214,000) and matured on April 30, 1993. Carena has agreed to forebear from exercising its remedies against Brookfield to support the reorganization and extension of Brookfield's revolving bank facility and certain of its project loans. In accordance with the terms of the pledge agreement, the common shares of Brookfield are registered in the name of a wholly-owned subsidiary of Carena, which is entitled to exercise all rights associated with such shares.

In the circumstances, BF Realty's ability to continue operations as a going concern is dependent upon the successful completion of a restructuring of its liabilities and share capital, continued interim funding from Brookfield and the attainment of profitable operations. To date, BF Realty has not obtained concessions from any of its creditors necessary to achieve a restructuring and it is uncertain that an agreement can be reached. On December 2, 1993 BCE Inc., (BCE) agreed to sell its interests in BF Realty to Carena. On April 12, 1994 Carena acquired 81,347,370 of the Company's common shares and the Company's 8% subordinated debentures in the principal amount of $25,000,000 from BCE, all of which Carena conveyed to BF Realty for cancellation for no consideration. As part of these transactions McLean Watson Group, a private investment company, the president of which is Loudon F. Owen, acquired the balance of BF Realty common shares held by BCE (29,821,185 common shares) for nominal consideration. The common shares acquired by McLean Watson Group represent approximately 35% of the outstanding common shares after the cancellation referred to above. Mr. Owen, who has been a director of BF Realty since 1991, has agreed to take responsibility at the board level for evaluating the alternatives available to BF Realty and determining whether an acceptable plan can be developed to restructure the liabilities and share capital of BF Realty. Mr. Owen has indicated that he expects to complete a report for consideration by the Directors this summer.

BF Realty's creditors are entitled to enforce their rights as creditors. If they do so, the going concern assumption underlying the preparation of financial statements for BF Realty would not be appropriate.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments may be necessary to restate the carrying values of assets and liabilities to their liquidation values .

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General

The Company's accounting policies and its standards of financial disclosure are in accordance with generally accepted accounting principles and are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies.

b. Principles of Consolidation

The consolidated financial statements of the Company include the accounts of all companies in which BF Realty has effective control. It was determined that as of December 31, 1992, BF Realty no longer controlled Brookfield and accordingly the investment in Brookfield has been accounted for using the equity method as at that date, and on the cost basis thereafter.

Also included are the accounts for 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, revenue and expenses.

c. Pro Forma Consolidated Statements

The pro forma consolidated statements of operations, deficit, cash flow from operations and changes in financial position for the year ended December 31, 1992 have been prepared for purposes of comparison to demonstrate the effect of accounting for BF Realty's investment in Brookfield on the equity basis. Pro forma financial information is included in the notes where applicable.

d. Rental Properties

(i) Carrying Values

Rental properties are carried at the lower of cost less accumulated depreciation, and net recoverable amount. Depreciation is provided for using the sinking fund method over an estimated 50-year useful 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 rental properties being fully depreciated over their estimated useful life. Depreciation is determined with reference to the rental property's carrying value.

Rental properties under development and held for development are carried at the lower of cost and net recoverable amount.

The net recoverable amount represents the undiscounted estimated future net cash flow expected to be received from the ongoing use of the property and its residual worth. To arrive at this amount, the Company projects the cash flow for each property over a maximum period of fifteen years. As a result of not discounting the cash flow, the carrying value may be greater than the current market value. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Provisions for Temporary Impairment

The Company provides for temporary impairment in property values where specific events have occurred causing measurable future operating losses over a known period of time during which a formal plan of action is to be implemented to cure the adverse conditions. The provisions are drawn down in future periods as operating losses occur.

(iii) Capitalized Charges

The Company capitalizes all direct costs relating to properties under development and properties held for development. In addition, certain other costs, including interest on property specific and general corporate debt, initial tenant inducements and other leasing allowances, property taxes and direct overhead costs, are capitalized to these properties.

(iv) Revenue Recognition

Rental revenue and related operating expenses are recognized upon the earlier of attaining a breakeven point in cash flow after debt service or the expiration of a reasonable period of time following substantial completion. Prior to this time, a rental property is categorized as rental property under development and rental revenue after operating expenses 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 has been received that is appropriate in the circumstances having regard to the financial resources of the purchaser.

e. *Land and Housing*

(i) Carrying Values

Land and housing properties are carried at the lower of cost and net realizable value.

The net realizable value represents the discounted etimated future net cash flow expected to be received from the ongoing use of the property and its residual worth. To arrive at this amount, the Company projects the cash flow for each property over a maximum period of fifteen years. These projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Capitalized Charges

The Company capitalizes all direct costs relating to the development of these properties including interest on property specific and general corporate debt, property taxes and overhead costs identified with the land and housing properties.

(iii) Revenue Recognition

Revenue is recognized on the sale of land when the Company has fulfilled all material conditions and has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser. Revenue from the sale of residential homes is recognized when the sale has been completed and the purchaser is entitled to occupancy.

f. *Properties Held for Sale*

(i) Carrying Values

Properties held for sale are carried at the lower of cost and net realizable value.

The net realizable value represents the discounted etimated future net cash flow expected to be received from the ongoing use of the property and its residual worth. To arrive at this amount, the Company projects the cash flow for each property over a maximum period of fifteen years. These projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Capitalized Charges

The Company capitalizes all direct costs relating to the development of these properties including interest on property specific and general corporate debt, property taxes and overhead costs identified with the properties held for sale.

(iii) Revenue Recognition

The Company uses the cost recovery method of accounting for these properties where rental revenue and related operating expenses and proceeds from sales are treated as a recovery of costs. Upon sale the Company recognizes the sale proceeds as a reduction of costs until there is certainty that the balance of the other properties held for sale will be disposed of at a profit.

g. 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.

h. Participating Mortgages

Interest on participating mortgages is calculated and recorded based on contractual agreements.

i. 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 are included in the consolidated statement of operations.

j. *Per Share Calculations*

Basic net income (loss) and cash flow per common share are calculated using the weighted average number of common shares outstanding during the year, after providing for dividends in arrears, on the Senior Preference Shares and Class A Preference Shares.

3. *MORTGAGES AND NOTES RECEIVABLE*

The mortgages and notes receivable are pledged to Brookfield as security for the secured advances payable to Brookfield. Mortgages and notes receivable yield a weighted average interest rate of 9.4% (1992 - 9.4%) per annum and mature as follows:

($ thousands)	
Years ending December 31, 1994	$ 137
1995	1,226
	$1,363

4. *CASH AND TERM DEPOSITS*

Included in cash and term deposits are amounts totalling $62,000 (1992 - $608,000) which can be applied only to specific liabilities, or only become available to the Company in the future.

5. *SECURED ADVANCES PAYABLE TO BROOKFIELD*

The Company's secured advances payable to Brookfield bear interest at floating rates and are due on demand. Brookfield agreed to waive its entitlement to interest on these advances during 1993.

6. ACCOUNTS AND OTHER PAYABLES

($ thousands)	1993	1992
Trade payables and accrued liabilities	$ 22,144	$ 25,581
Note payable	21,147	20,334
Costs to complete properties sold	-	3,813
	$ 43,291	$ 49,728

7. SUBORDINATED DEBENTURES

($ thousands)	1993	1992
10.75% Subordinated Debentures	$ 26,089	$ 26,089
8% Subordinated Debentures	74,994	99,994
	101,083	126,083
Accrued and unpaid interest	33,983	28,318
	$ 135,066	$ 154,401

On December 31, 1990, the Company deferred interest payments on the 8% subordinated debentures and on April 30, 1991, deferred interest payments on the 10.75% subordinated debentures. Payments with respect to either series of debentures are unlikely to resume.

The 10.75% subordinated debentures are unsecured subordinate obligations of the Company. The debentures are repayable in eight equal instalments of principal and interest, payable semi-annually, commencing April 30, 1992 and are redeemable at the option of the Company, in whole or in part, at any time, at par plus accrued interest. Repayment of the debentures is subordinate to all items of indebtedness which are included in determining total liabilities as shown in the liability section of the consolidated balance sheet. The Company has not made any semi-annual instalments of principal and interest.

The 8% subordinated debentures are unsecured subordinate obligations of the Company and are convertible at any time into common shares at the option of the holder at a price of $4.80 per common share. Repayment of the debentures is subordinate to all items of indebtedness which are included in determining total liabilities as shown in the liability section of the consolidated balance sheet. The 8% subordinated debentures mature on June 30, 1998, and are redeemable at the option of the Company, in whole or in part, after December 31, 1993 at par plus accrued interest.

On December 2, 1993, BCE agreed to sell its interests in BF Realty to Carena. On April 12, 1994, Carena acquired 8% subordinated debentures in the principal amount of $25,000,000 from BCE. Carena subsequently conveyed these debentures to BF Realty for cancellation for no consideration. The effect of the conveyance and cancellation is reflected in the consolidated financial statements.

8. CONTINGENCIES AND COMMITMENTS (See also Note 5)

a. BF Realty has guaranteed Brookfield's secured capital loans amounting to $1,030,543,000 (1992 - $917,214,000). BF Realty has also guaranteed other Brookfield loans amounting to $513,541,000 (1992 - $600,227,000).

b. 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. 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.

9. SHAREHOLDERS' DEFICIT

Authorized	
10,000,000	Preference Shares with a par value of $10 each, issuable in series, of which 2,500,000 are designated as 9.125% Cumulative Redeemable Retractable Preference Shares, Senior Series A; 1,500,000 are designated as 9.75% Cumulative Redeemable Retractable Preference Shares, Senior Series B; and 5,750,000 are designated as 8% Cumulative Redeemable Retractable Preference Shares, Senior Series C.
150,000,000	Class A Preference Shares without par value, issuable in series, of which 3,600,000 are designated as Cumulative Redeemable Retractable Class A Preference Shares, Series 1.
150,000,000	Class B Preference Shares without par value, issuable in series.
500,000,000	Common Shares, voting, without par value.

($ thousands) **Issued and Outstanding**		**1993**	**1992**
Preference Shares			
1,003,047	9.125% Preference Shares, Senior Series A	$ 10,030	$ 10,030
682,859	9.75% Preference Shares, Senior Series B	6,829	6,829
3,600,000	Class A Preference Shares, Series 1	90,000	90,000
		106,859	106,859
Common Shares			
84,667,676	Common Shares (1992 - 166,015,046)	232,677	456,229
	Contributed surplus	297,516	48,964
	Deficit	(1,094,412)	(1,105,636)
		$ (457,360)	$ (493,584)

a. **Preference Shares**

(i) *Preference Shares, Senior Series A and B*

Cash dividends are payable quarterly. Cumulative dividends of $4,042,000 on the Senior Series A, and $2,941,000 on the Senior Series B preference shares are in arrears (1992 - $3,127,000 and $2,275,000, respectively).

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, in each case at $10 per share plus accrued dividends.

The Company is obligated, during each calendar quarter, commencing November 1, 1993, to purchase for cancellation in the market 1% of the shares outstanding on October 31, 1993, at a price not to exceed $10 per share plus, in each case, costs of purchase and accrued dividends. The Company has not purchased any preference shares, Senior Series A or B for cancellation.

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

Cash dividends are payable quarterly at a rate equal to the greater of $2.25 per share and the Canadian dollar equivalent of U.S. $1.7186 per share per annum. Cumulative dividends of $36,450,000 are in arrears (1992 - $28,350,000).

The shares are redeemable, in whole or in part, at the option of the Company after December 31, 1993 at the greater of $25 per share and the Canadian dollar equivalent of US $19.0956 per share plus accrued dividends.

The shares are retractable at the option of the holder on September 30, 1993 and thereafter on the last day of September in each year at the greater of $25 per share and the Canadian dollar equivalent of US $19.0956 per share plus accrued dividends.

The amount payable to a holder of the shares will be paid in Canadian dollars, unless the holder elects to be paid in United States dollars by giving written notice to the transfer agent. The Canadian dollar equivalent of the amounts payable to holders of the shares are based on the prevailing rate of exchange on the applicable date.

b. Common Shares

On December 2, 1993 BCE agreed to sell its interests in BF Realty to Carena. On April 12, 1994, Carena acquired 81,347,370 of the Company's common shares from BCE, all of which Carena conveyed to BF Realty for cancellation for no consideration. The effect of this conveyance and cancellation, which resulted in the book value ($223,552,000) of the cancelled common shares being transferred to contributed surplus, is reflected in the consolidated financial statements.

As part of this transaction, McLean Watson Group, a private investment group acquired the balance of BF Realty common shares previously held by BCE (29,821,185 common shares) for nominal consideration. The common shares acquired by McLean Watson Group represent approximately 35% of the outstanding common shares after the cancellation referred to above.

c. Contributed Surplus

On April 12, 1994, Carena acquired 81,347,370 of the Company's common shares and the Company's 8% subordinated debentures in the principal amount of $25,000,000 from BCE, all of which Carena conveyed to BF Realty for cancellation for no consideration. The principal amount of 8% subordinated debentures amounting to $25,000,000 and the book value ($223,552,000) of the 81,347,370 common shares conveyed and cancelled by BF Realty have been added to contributed surplus.

10. INTEREST CHARGES

($ thousands	1993	Pro forma 1992	1992
Interest charges were incurred from:			
Secured bank indebtedness	$ 1,229	$ 1,602	$ 162,515
Subordinated debentures	13,563	13,047	13,047
Other	14	30	3,353
Total Interest	14,806	14,679	178,915
Less:			
Interest directly capitalized to properties	1,229	1,602	124,640
Accumulated interest on 8% subordinated debentures conveyed to BF Realty for cancellation for no consideration	7,898	-	-
	9,127	1,602	124,640
Interest Expense	$ 5,679	$ 13,077	$ 54,275

11. INCOME TAXES

The Company and its subsidiaries have accumulated tax losses of approximately $500,000,000, which will expire between 1995 and 2008. The realization of the potential benefit is in substantial doubt and the use of these losses has not been reflected in the financial statements.

12. PROVISIONS AND FOREIGN CURRENCY LOSSES

The following is a summary of the provisions and foreign currency losses.

($ thousands)	1993	Pro forma 1992	1992
Provision for loss on investment in subsidiary	$ -	$ 25,501	$ 25,501
Provision for other claims of subsidiary	-	51,835	51,835
Provision for diminution in property values	-	-	75,708
Recognition of foreign currency losses	2,397	44,303	44,303
Recovery of prior years' provision for unsecured liabilities	(19,486)	(65,387)	(65,387)
	$(17,089)	$ 56,252	$ 131,960

13. CAPITALIZED COSTS

($ thousands)	1993	Pro forma 1992	1992
During the year the Company capitalized the following costs:			
Interest	$ 1,229	$ 1,602	$ 124,640
Property taxes	38	339	34,359
General and administrative	327	4,340	9,929
Rental income from properties under development and held for sale	928	678	(28,317)
Current year costs recovered through sale of properties	(2,522)	(5,575)	(10,039)
	$ -	$ 1,384	$ 130,572
These costs were capitalized to properties as follows:			
Rental properties under and held for development	$ -	$ -	$ 107,806
Properties held for sale	-	1,384	22,766
	$ -	$ 1,384	$ 130,572

14. SEGMENTED INFORMATION

a. The Company did not generate rental revenue during 1993 and pro forma 1992. During 1992 the Company generated rental revenue of $92,546,000, of which $4,108,000 was generated in Canada and $88,438,000 was generated in th United States.

b. The Company did not generate net rental income during 1993 and pro forma 1992. During 1992 the Company generated net rental income of $41,660,000, of which $2,528,000 was generated in Canada and $39,132,000 was generated in the United States.

c. The Company's real estate assets were located in the United States at December 31, 1993 and 1992.

15. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH CARENA DEVELOPMENTS LIMITED

Transactions with related parties are conducted on terms and conditions comparable to those with arms-length parties. Material transactions are reviewed and approved by the Company's Independent Directors.

16. INFORMATION ON BROOKFIELD

Brookfield's condensed financial statements are as follows:

Consolidated Balance Sheet

($ thousands) As at December 31,	Note Reference	1993	1992
Assets			
Properties	16b	$ 2,481,433	$ 2,702,305
Other assets		108,798	87,521
		$ 2,590,231	$ 2,789,826
Liabilities			
Long-term indebtedness	16c	$ 1,720,052	$ 1,786,437
Accounts and other payables		161,949	135,335
Capital Base			
Secured capital loans	16e	1,030,543	917,214
Preference shares	16f	131,122	131,122
Common shareholders deficit	16f	(453,435)	(180,282)
		$ 2,590,231	$ 2,789,826

16. INFORMATION ON BROOKFIELD (cont'd)

Consolidated Statement of Operations

($ thousands) *For the years ended December 31,*	*1993*	*1992*
Revenue	$ 141,105	$ 102,930
Expenses	414,198	191,693
Net Loss	$ (273,093)	$ (88,763)

Consolidated Statement of Deficit

($ thousands) *For the years ended December 31,*	*1993*	*1992*
Deficit, beginning of year	$ (163,594)	$ (73,160)
Net loss	(273,093)	(88,763)
	(436,687)	(161,923)
Dividends:		
Class C Preference Shares	-	(1,671)
Deficit, end of year	$ (436,687)	$(163,594)

16. INFORMATION ON BROOKFIELD (cont'd)

Consolidated Statement of Cash Flow from Operations and Changes in Financial Position

($ thousands) *For the years ended December 31,*	*1993*	*1992*
INFLOWS (OUTFLOWS)		
Net loss	$ (273,093)	$ (88,763)
Items not requiring a current outlay of cash	282,296	83,470
Cash flow from operations	9,203	(5,293)
Other operational activities	(3,215)	116,501
Cash provided from operational activities	5,988	111,208
Cash (applied to) provided from financing activities	(46,794)	277,960
Cash provided from (applied to) investment activities	45,028	(410,829)
Increase (decrease) in cash and term deposits	$ 4,222	$ (21,661)

16a. SUMMARY OF BROOKFIELD'S SIGNIFICANT ACCOUNTING POLICIES

Brookfield's significant accounting policies are consistent with those of BF Realty (See also Note 2).

16b. PROPERTIES

Brookfield's rental properties consist of office, retail and mixed use urban projects at varying stages of development. Land and housing consists of land under and held for development and sale and single family homes under development and held for sale. Properties held for sale include, suburban shopping centres, commercial development sites and residential condominiums.

($ thousands)	1993	1992
Rental properties:		
Income producing	$ 1,498,965	$ 1,164,902
Accumulated depreciation	(35,561)	(26,621)
	1,463,404	1,138,281
Under development	641,980	1,105,864
Held for development	-	53,870
	2,105,384	2,298,015
Land and housing	223,650	180,908
Properties held for sale	152,399	223,382
	$ 2,481,433	$ 2,702,305

16c. LONG-TERM INDEBTEDNESS

($ thousands)	1993	1992
Property indebtedness - secured		
Rental	$ 1,250,009	$ 1,391,586
Land and housing	132,260	-
Held for sale	93,172	66,723
	1,475,441	1,458,309
Corporate indebtedness - secured		
Mortgages and notes receivable	3,738	3,456
Revolving bank facility	66,368	170,672
Preference shares of subsidiaries - secured	154,000	154,000
Advances from affiliates - secured	20,505	-
	244,611	328,128
	$ 1,720,052	$ 1,786,437

Long-term indebtedness includes $768,267,000 (1992 - $788,676,000) repayable in American dollars. The Canadian dollar equivalent is $1,015,418,000 (1992 - $1,002,329,000). Fixed rate indebtedness of $1,338,550,000 bears interest, including participation features, at a weighted average rate of 7.4% (1992 - 7.5%) per annum after giving effect to money market instruments used to fix interest rates. The Company has mortgages outstanding totalling $528,471,000 (1992 - $477,354,000) which entitle the lender to participate in sale and refinancing proceeds from three properties in excess of loan amounts and other permitted allowances to a maximum of 25%.

The maturity schedule of Brookfield's long-term indebtedness is as follows:

($ thousands)		Total
Years ending December 31,	1994	$ 8,556
	1995	6,515
	1996	8,265
	1997	298,690
	1998	615,004
	Due subsequent	783,022
		$ 1,720,052

(i) Property Indebtedness - secured

Property indebtedness is provided by banks and other financial institutions including insurance companies and pension funds and is secured by fixed and specific charges on Brookfield's properties and ranks in priority to Brookfield's secured capital loan.

(ii) Corporate Indebtedness - secured

Brookfield's revolving credit facility has an available limit of $76,000,000 and bears interest at a rate equal to the prime rate of certain Canadian chartered banks plus 5/8 of one percent and/or at the bankers' acceptance rate for the same Canadian chartered banks plus one percent. The facility, which matures on December 31, 1997, is secured by charges on sbustantially all of Brookfield's assets and ranks in priority to the secured capital loans.

(iii) Preference Shares of Subsidiaries - secured

Outstanding ($ thousands)		*1993*	*1992*
	Brookfield Capital I Corporation		
2,000,000	7.25% Redeemable Retractable Preference Shares, Series 1	$ 50,000	$ 50,000
	BCE Place Finance Corporation		
2,496,000	7.375% Redeemable Retractable Preference Shares, Series 1	62,400	62,400
1,664,000	7.75% Redeemable Retractable Preference Shares, Series 2	41,600	41,600
		$ 154,000	$ 154,000

On March 31, 1994, the preference shareholders of Brookfield Capital 1 Corporation exercised their rights to retract 1,539,763 shares at $25 per share plus accrued dividends. On May 11, 1994 the remaining 460,237 preferred shares were redeemed at $25 per share plus accrued dividends. A syndicate of Canadian chartered banks has provided term project financing to fund the retraction and redemption of these preference shares.

BF Realty is obligated to purchase BCE Place Finance Corporation shares in the event dividend or redemption payments on the shares are not made and upon occurrence of certain other events. This obligation is guaranteed by BCE, the guarantee is secured by a property owned by Brookfield.

As a result of BCE's disposition of its interest in BF Realty, BCE Place Finance Corporation preference shareholders were entitled to sell their shares under purchase arrangements entered into at the time the shares were issued. These arrangements were guaranteed by BCE Inc. On April 19, 1994, BF Realty issued an offer to purchase, terminating on June 3, 1994, all of the outstanding 7.375% Preference Shares, Series 1 at $25.75 per share plus accrued dividends and all of the outstanding 7.75% Preference Shares, Series 2 at $26 per share plus accrued dividends. BCE purchased all of the preference shares deposited pursuant to its guarantee. On June 3, 1994, BCE had purchased 2,442,398 - 7.375% Preference Shares, Series 1 and 1,524,900 - 7.75% Preference Shares, Series 2. Holders of 53,602 - 7.375% Preference Shares, Series 1 and 139,100 - 7.75% Preference Shares, Series 2 failed to deposit their shares by June 3, 1994. The purchase obligations and BCE's guarantee in support thereof are no longer applicable to these shares.

(iv) Advances from Affiliates - secured

In addition to the secured capital loans, Carena has advanced $20,505,000 (1992 - nil) to Brookfield. These loans are due on December 31, 1998, bear interest at a rate equal to the prime rate of a Canadian chartered bank plus 5/8 of one per cent and rank in priority to the secured capital loans.

16e. SECURED CAPITAL LOANS

Carena has provided a secured capital loan facility to Brookfield which amounted to $1,030,543,000 at December 31, 1993 (1992 - $917,214,000, including $35,424,000 which was classified as advances from affiliates). The secured capital loan facility matured April 30, 1993. Carena has agreed to forebear from exercising its remedies against Brookfield, to support the reorganization and extension of Brookfield's revolving bank facility and certain of its project loans. The secured capital loan facility is subordinate to substantially all of Brookfield's long-term indebtedness with regards to principal and interest. Advances under this facility are secured by charges on substantially all of Brookfield's assets and are guaranteed by BF Realty. The BF Realty guarantee is secured by charges on substantially all of BF Realty's assets including a specific pledge of all the outstanding common shares of Brookfield. The secured capital loan facility bears interest at variable rates with the interest rate fluctuating with market rates. Commencing April 30, 1993, interest on the secured capital loan facility has been accrued and unpaid, in accordance with the subordinate nature of the secured capital loan facility. In addition, $30,000,000 (1992 - $30,000,000) of the facility has been drawn down through the issuance of Class C Preference Shares of the Company. Cumulative dividends of $1.2 million were in arrears as at December 31, 1993 (1992 - nil).

Brookfield's common shares are owned by BF Realty. BF Realty is no longer in a position to exercise control of Brookfield and as a result does not consolidate the accounts of Brookfield. Carena has acquired effective control of the Company, through its secured capital loan facility.

Carena has stated that upon resolution of the issues concerning BF Realty stakeholders, Carena will convert its secured capital loan facility into shares of Brookfield. If a consensual agreement with the BF Realty stakeholders cannot be reached, Carena is entitled, among other remedies, to enforce its pledge and thereby foreclose on BF Realty's interest in the common shares of Brookfield.

16f. SHAREHOLDERS' EQUITY (DEFICIT)

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, with dividends payable semi-annually at a rate equivalent to 70% of the prime lending rate. The Series 1 shares are redeemable at the option of Brookfield and retractable by the holders under certain specific circumstances. Cumulative dividends of $1,191,000 were accrued and unpaid (1992 - nil).
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, with dividends payable quarterly at a rate equivalent to 70% of prime lending rate. The Series 1 shares are redeemable at the option of Brookfield and retractable at the option of the holder. Cumulative dividends of $16,688,000 were in arrears (1992 - $12,431,000).
Unlimited	Common Shares, without par value.

Outstanding ($ thousands)		1993	1992
Preference Shares			
1,200,000	Class C Preference Shares, Series 1	$ 30,000	$ 30,000
4,044,872	Class D Preference Shares, Series 1	101,122	101,122
		$ 131,122	$ 131,122
Common Shares			
245,944	Common shares	$ 109,347	$ 109,347
	Contributed surplus	80,619	80,619
	Foreign exchange adjustment	9,223	9,283
	Secured advances to BF Realty, net of provisions	(215,937)	(215,937)
	Deficit	(436,687)	(163,594)
		$(453,435)	$(180,282)

(i) Secured Advances to BF Realty

The secured advances to BF Realty are secured by charges on substantially all of BF Realty's assets, including Brookfield's common shares held by BF Realty. In recognition of the reciprocal nature of these loans, the advances are shown by Brookfield as a deduction from its shareholders' equity. In completing the revolving bank facility extension agreement, Brookfield fulfilled its remaining guarantee obligations with respect to BF Realty's secured project lenders. Brookfield has no obligation to advance additional funds to BF Realty.

The advances to BF Realty amounted to $215,937,000, net of provisions totalling $64,835,000. Brookfield agreed to waive its entitlement to interest on these advances during 1993.

17. COMPARATIVE FIGURES

Certain figures have been restated to conform with the current year's presentation.

BOARD OF DIRECTORS

James D. Beatty
President
Trinity Capital Corporation
Toronto

Richard J. Elder
Richardson Greenshields
Toronto

John D. McBride
Great Lakes Minerals Inc.
London, England

E.F. Anthony Merchant[1]
Partner
Merchant Law Group
Regina

Edwin B. Nordholm
Vice President
Carena Developments Limited
Toronto

Loudon F. Owen[1]
McLean, Watson Group
London, England

William J. Pringle[1]
President and Co-Chief Executive Officer
Coscan Development Corporation
Toronto

(1) Member of the Audit Committee

CORPORATE OFFICERS

Michael D. Peires
Controller

William J. Pringle
Senior Vice President and
Chief Financial Officer

CORPORATE INFORMATION

Head Office
Suite 4200
181 Bay Street
BCE Place
Bay Wellington Tower
Toronto, Ontario M5J 2T3

Legal Counsel
Tory Tory DesLauriers & Binnington
Suite 3200
Aetna Tower
Toronto, Ontario M5K 1N2

Auditors
Deloitte & Touche
Suite 1400
181 Bay Street
BCE Place
Bay Wellington Tower
Toronto, Ontario M5J 2V1

Transfer Agents and Registrars
Common Shares
The R-M Trust Company
Class A Preference Shares, Series 1
9.125% Preference Shares, Senior Series A and
9.75% Preference Shares, Senior Series B
The Montreal Trust Company

Trustees for Debentures
8% Subordinated Debentures
National Trust Company
10 3/4% Subordinated Debentures
Central Guaranty Trust Company
c/o Montreal Trust Company

Telephone
(416) 359-2924
(800) 268-2130 (toll free)

Fax
(416) 359-2887