# BF REALTY HOLDINGS LIMITED

## Annual Report 1992

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## Message to Shareholders

For three and a half years, the management of BF Realty has worked assiduously to create value and complete a financial restructuring plan that would enable our unsecured creditors and shareholders to recover a small portion of their investment. We have been supported in this effort by BCE Inc. and Carena Developments Limited, the largest secured creditors to Brookfield Development Corporation. Nevertheless, it has been an unexpectedly long and frustrating process for everyone concerned, principally due to deteriorating real estate markets and the protracted North American recession.

During this time, both BF Realty and Brookfield have accomplished a great deal in an effort to preserve BF Realty as a going concern despite continued operating losses. These accomplishments have included:

- restructuring the ownership and financing of 10 projects, resulting in annual savings of $70 million;
- reducing general and administrative costs by $25 million per year;
- selling non-strategic assets to generate proceeds in excess of $600 million;
- leasing more than three million square feet to raise occupancy levels to more than 75 percent; and
- obtaining financing commitments in an adverse environment which permitted the completion of Brookfield's development program.

Despite these accomplishments, the outlook for BF Realty remains uncertain. Although administrative and other costs have been severely curtailed, BF Realty's consolidated loss for 1992, before deducting preference share dividends of subsidiaries and provisions, amounted to $15 million and the common shareholders' deficit at the end of the year was $600 million. Accordingly, the progress made is of little consolation to public securityholders.

Well-intentioned statements that an acceptable restructuring plan would be presented for consideration by BF Realty's Board of Directors and, if approved, thereafter to the public securityholders, have thus far proven optimistic in the face of the complexities encountered and the deteriorating real estate markets accompanied by a major contraction in the credit available to the real estate industry. This has materially impaired North American real estate values and to date there have been few signs of a meaningful recovery.

Although Brookfield was able to lease more than 1.8 million square feet in 1992, it is not expected that lease-up will be achieved for a further three years. Brookfield's capital base is derived from the secured capital loans which rank ahead of BF Realty's investment in Brookfield. After taking into account the secured capital loans, management believes BF Realty's investment in Brookfield has no value. At December 31, 1992 it was clear that Brookfield's liabilities, including the secured capital loans, exceeded the carrying value of its assets and that a rights offering, once viewed as the best approach to a restructuring, was unworkable. It was also clear that these circumstances would not change for quite some time.

There is no assurance that a viable alternative restructuring plan that is acceptable to all parties can and will be developed. The secured capital loans provided by BCE and Carena, which at December 31, 1992 amounted to $882 million including interest advances, matured on April 30, 1993. Security for the capital loans includes a pledge of BF Realty's interest in Brookfield. BCE and Carena have not taken steps to realize on their security while BF Realty continues to explore alternatives for a restructuring plan that fairly addresses the respective priorities of the parties' investments. In light of prevailing values, it is clear that any conceivable plan will require concessions from all parties. We have no assurance that these concessions can be negotiated. In either a restructuring or a realization by secured lenders on their securities, it is highly probable that Brookfield will not remain a subsidiary of BF Realty.

Since BF Realty can no longer exercise control over Brookfield without the co-operation of Brookfield's secured lenders, it is inappropriate for BF Realty to continue the consolidation of the accounts of Brookfield. This change was made effective December 31, 1992 with condensed financial statements of Brookfield included in the notes to BF Realty's financial statements. Consistent with this, BF Realty has reduced the carrying value of its investment in Brookfield to nil. A complete discussion of BF Realty's results and financial condition is provided in the Financial Analysis and Review section of this report.

We recognize that the delays and uncertainties experienced must be frustrating to all parties. However, this is unavoidable as we strive to find a constructive solution. Management will keep public securityholders informed as further developments warrant.

On behalf of the Board

Lawrence H Herber

Lawrence H. Herber
President

June 11, 1993

# Financial Analysis and Review

At the beginning of 1990, BF Realty Holdings Limited (BF Realty) adopted a strategic business plan. The plan included; (i) major reductions to overhead and operating costs; (ii) the sale of non-strategic assets; (iii) property debt restructurings and (iv) strengthening of the capital base of Brookfield Development Corporation (Brookfield), BF Realty's principal operating subsidiary, to enable the completion of an extensive property development program which was underway.

The primary goal of the plan was to enhance the value of BF Realty's investment in Brookfield. Although much success was achieved with respect to plan objectives, this was against a back-drop of deteriorating real estate markets and a severe contraction of credit available to the real estate industry. Under these adverse market conditions, Brookfield's liabilities, including secured capital loans provided to Brookfield, exceed the carrying value of its assets. The result is that BF Realty's investment in Brookfield which ranks behind the secured capital loans, has no underlying value. It is also apparent that values will not fully recover in the foreseeable future. Leasing rates have deteriorated in most North American markets, and are not expected to recover for five years or more. The lease-up of certain of Brookfield's development projects, originally scheduled for completion in 1993, is forecasted to take a further three years.

It had been contemplated that a restructuring plan would be proposed to the holders of BF Realty's public securities that would include a common share rights offering of Brookfield and a related conversion of the secured capital loans made by BCE Inc. (BCE) and Carena Developments Limited (Carena) into common shares of Brookfield. In view of the above noted economic conditions, a rights offering would provide no value to existing public securityholders. Consequently, BF Realty management has been attempting to develop an alternate plan to provide some value for its public securityholders, but has been unsuccessful to date.

Under these circumstances, any restructuring will require concessions from all parties if any value is to remain for BF Realty's public securityholders, whose investment is the most junior ranking. The ability to secure these concessions is in considerable doubt, and if achieved, they are likely to result in only modest value attributable to BF Realty's public securityholders. Furthermore, it is unlikely that Brookfield will remain a subsidiary of BF Realty under any practical restructuring plan. In the interim, it is clear that BF Realty no longer controls Brookfield without the co-operation of Brookfield's secured lenders.

If BF Realty management is unable to obtain a consensus among BF Realty's and Brookfield's secured lenders in favour of a restructuring plan and a plan is not approved by public securityholders, secured lenders will be entitled to enforce their rights. With respect to the secured capital loans provided by BCE and Carena, they are entitled, among other remedies, to enforce their pledge of the outstanding common shares of Brookfield. In either circumstance, Brookfield is unlikely to remain a subsidiary of BF Realty and BF Realty will not have any economic interest in Brookfield. For these reasons, in accordance with generally accepted accounting principles, it is inappropriate for BF Realty to account for Brookfield as a subsidiary and accordingly, the Company's consolidated financial statements no longer include Brookfield's assets and liabilities.

### Operating Results

The determination that BF Realty is no longer in a position to exercise control of Brookfield without the co-operation of Brookfield's secured lenders was made at year end. As a result, BF Realty's operating results for the year include the activities of Brookfield. In order to understand the impact of this change, the analysis which follows includes information on operating results both with and without Brookfield.

The loss for the year before preference share dividends of subsidiaries and provisions was $15.0 million on revenue of $103.1 million, compared with last year's loss of $14.8 million on revenue of $122.6 million.

The segmentation of the consolidated operating results of BF Realty and Brookfield and their respective subsidiaries for 1992, with comparative consolidated results for 1991, was as follows:

| | | | Consolidated | |
|---|---|---|---|---|
| ($ 000's) | BF Realty | Brookfield | **1992** | 1991 |
| Rental | $ — | $ 92,546 | **$ 92,546** | $106,575 |
| Interest and other | 123 | 10,384 | **10,507** | 16,062 |
| Total revenue | 123 | 102,930 | **103,053** | 122,637 |
| Rental operating costs | — | 50,886 | **50,886** | 59,000 |
| Interest | 13,077 | 41,198 | **54,275** | 62,187 |
| General, administrative and reorganization costs | 393 | 4,688 | **5,081** | 5,959 |
| Depreciation and amortization | — | 7,762 | **7,762** | 10,259 |
| Total expenses | 13,470 | 104,534 | **118,004** | 137,405 |
| | (13,347) | (1,604) | **(14,951)** | (14,768) |
| Preference share dividends of subsidiaries | 1,671 | 11,451 | **13,122** | 13,568 |
| Provisions | 56,252 | 75,708 | **131,960** | — |
| **Net loss** | $ (71,270) | $ (88,763) | **$(160,033)** | $ (28,336) |

***Net rental income***

Net rental income was as follows:

| | | | Consolidated | |
|---|---|---|---|---|
| ($ 000's) | BF Realty | Brookfield | **1992** | 1991 |
| Rental revenue | $ — | $ 92,546 | **$ 92,546** | $106,575 |
| Rental operating costs | — | 50,886 | **50,886** | 59,000 |
| | $ — | $ 41,660 | **$ 41,660** | $ 47,575 |

Net rental income decreased $5.9 million compared to 1991. This decrease was a result of the following major factors:

(i) a decrease of $9.6 million due to the sale of IDS Center and Towne Square in 1991;

(ii) an increase of $0.3 million due to two properties being reclassified as income producing in 1992; and

(iii) an increase of $3.4 million due to higher occupancy and rental rate levels from properties classified as income producing in both years.

BF Realty is not expected to have any net rental income in 1993.

***Interest and other***

Interest and other income decreased $5.6 million compared to 1991 as a result of the collection by Brookfield of mortgages and notes receivable. BF Realty will continue to have nominal interest and other income in 1993.

***Interest***

Interest expense was as follows:

| | | | Consolidated | |
|---|---|---|---|---|
| ($ 000's) | BF Realty | Brookfield | **1992** | 1991 |
| Net interest on project and other debt | $ 30 | $ 41,198 | **$ 41,228** | $ 51,382 |
| Interest on subordinated debentures accrued but not paid | 13,047 | — | **13,047** | 10,805 |
| | $ 13,077 | $ 41,198 | **$ 54,275** | $ 62,187 |

Interest expense decreased $7.9 million compared to 1991, primarily due to the sale of IDS Center and Towne Square in 1991.

BF Realty's interest expense in 1993 will arise primarily from interest accruing on BF Realty's subordinated debentures and secured advances payable to Brookfield.

***General, administrative and reorganization costs***

General, administrative and reorganization costs are consistent with past years. BF Realty's anticipated future administrative costs are expected to be nominal.

***Depreciation and amortization***

Depreciation and amortization decreased $2.5 million compared to 1991. The decrease was due to the sale of two properties in 1991, partially offset by an increasing provision of 5% annually on other rental properties which results from the use of the sinking fund method of depreciation. BF Realty does not expect a charge for depreciation and amortization in 1993.

**Balance Sheet Analysis**

As a result of BF Realty's inability to control Brookfield without the co-operation of Brookfield's secured lenders, the balance sheet accounts of Brookfield are not consolidated with those of BF Realty at December 31, 1992. To aid in the analysis of these accounts, we have provided below the 1991 accounts with Brookfield, and on a pro forma basis, without Brookfield. The analysis provided herein is a comparison of the 1992 financial position to the pro forma 1991 financial position prepared on a consistent basis as explained in Note 3C. The condensed financial statements of Brookfield are also included in Note 22 to the audited consolidated financial statements of BF Realty.

| | **1992** | 1991 | | |
|---|---|---|---|---|
| ($ 000's) | **Consolidated** | Pro forma | Brookfield | Consolidated |
| **Assets** | | | | |
| Properties | **$ 2,288** | $ 15,361 | $2,229,859 | $2,245,220 |
| Mortgages, notes and amounts receivables | **3,079** | 1,438 | 209,102 | 210,540 |
| Cash and other assets | **669** | 1,588 | 42,497 | 44,085 |
| Secured loan to BF Realty | **—** | — | 215,937 | — |
| Investment in Brookfield | **—** | 115,935 | — | — |
| | **$ 6,036** | $ 134,322 | $2,697,395 | $2,499,845 |
| **Liabilities and Equity** | | | | |
| Debt on properties and other secured indebtedness | **$ 27,719** | $ 37,410 | $1,354,010 | $1,391,420 |
| Secured capital loans of subsidiary | **—** | — | 783,480 | 783,480 |
| Secured advances payable to Brookfield | **267,772** | 248,239 | — | — |
| Accounts and other payables | **49,728** | 106,360 | 158,848 | 265,208 |
| Subordinated debentures | **154,401** | 141,354 | — | 141,354 |
| Preference shares of subsidiaries | **—** | — | 154,000 | 285,122 |
| Preference shares | **106,859** | 106,859 | 131,122 | 106,859 |
| Common shareholders' equity (deficit) | **(600,443)** | (505,900)(1) | 115,935 | (473,598) |
| | **$ 6,036** | $ 134,322 | $2,697,395 | $2,499,845 |

(1) 1991 Pro forma reflects a $32,302,000 intercompany charge from Brookfield which on consolidation was eliminated in 1991 and charged to income in 1992 as a provision.

***Properties***

The Company's real estate properties are segmented into rental properties and properties held for sale or restructuring. The Company conducts an annual review of the carrying values of its properties to ensure they are in accordance with generally accepted accounting principles. BF Realty does not have a direct interest in any rental properties and does not expect to acquire any in 1993.

BF Realty's two remaining properties are classified as held for sale or restructuring, Rand Tower, an historical property located in Minneapolis and a condominium development called Hamilton Cove on Santa Catalina Island. Both properties are held by wholly-owned subsidiaries.

The Rand Tower is a 26 storey building comprising 135,000 square feet constructed in 1929, and an older 8 storey structure comprising 40,000 square feet. The project's lead tenant vacated the premises in late 1991 leaving the building almost 90% vacant. The building may be renovated when markets improve and financing can be arranged. In the interim, carrying costs are being minimized and revenue is being generated from the leasing of improved space where possible. The property debt secured by these buildings exceeds the net realizable value of the project.

The Hamilton Cove project is a 187 unit condominium project on Santa Catalina Island off the coast of California at Los Angeles. These mediterranean style villas were marketed as vacation homes. During the year, BF Realty sold all but one of the available units, and continues to own development rights and some in place infrastructure for the construction of additional units. BF Realty is seeking a financial partner or purchaser to construct the balance of the project. The property debt secured by this development substantially exceeds the net realizable value of the project. The sales of the Hamilton Cove units accounted for the decrease in BF Realty's properties held for sale or restructuring.

***Mortgages, notes and amounts receivables***

Mortgages, notes and amounts receivables increased to $3.1 million in 1992 from $1.4 million in 1991 as a result of mortgages provided to purchasers of condominium units at Hamilton Cove. BF Realty has reviewed the security for these mortgages and notes and adequate provisions have been made for doubtful accounts. A decrease in these accounts as a result of collections is expected in 1993.

***Cash and other assets***

Cash and other assets of $0.7 million consist of cash held in escrow to meet specific performance obligations, prepaid expenses, and furniture, fixtures and equipment. Included in cash and other assets are deposits totalling $0.6 million which can be applied only to specific liabilities, or only become available to BF Realty in the future.

***Investment in Brookfield***

BF Realty's investment in Brookfield is shown as nil.

***Debt on properties and other secured indebtedness***

Total property debt and bank loans were $27.7 million at December 31, 1992 compared with $37.4 million at the end of 1991.

BF Realty's property debt is guaranteed by Brookfield and it expects these obligations will be retired by Brookfield.

***Secured advances payable to Brookfield***

The secured advances represent Brookfield's support of BF Realty in funding amounts owing under head leases and other forms of guarantees previously signed by BF Realty, to support financially troubled rental properties owned by BF Realty's subsidiaries, interest payments on subordinated debentures paid during 1990, general operating costs, and other amounts to settle claims against BF Realty and its other subsidiaries. In 1992, a further $19.5 million of interest was accrued on the secured advances.

*Accounts and other payables*
Accounts and other payables decreased to $49.7 million from $106.4 million in 1991. During the year, the Company endeavoured to settle unsecured claims which ranked in priority to BF Realty's debentureholders and securityholders. The majority of the decrease resulted from these efforts.

*Subordinated debentures*
In December 1990, BF Realty deferred payment of interest on its 8% subordinated convertible debentures to ensure that the more senior ranking creditors were being treated no less favourably than the holders of the subordinated debentures. In April 1991, BF Realty for the same reason deferred payment of interest on its 10¾% subordinated debentures. The increase in 1992 in the amount owing on the subordinated debentures reflects the increase in accrued but unpaid interest. These debentures are subordinate to all other indebtedness included in determining BF Realty's total liabilities.

**Capital Resources and Liquidity**
Brookfield continues to finance BF Realty's administrative costs through secured advances. BF Realty has been unable to find another source of funding for these costs and has no source of funds to service its financial obligations. It is therefore unable to resume payments to its creditors, including the holders of its subordinated debentures, or to resume dividend payments on its preference shares. BF Realty's ability to remain a going concern is contingent on the successful implementation of a restructuring plan, and continued funding by Brookfield of operating costs in the interim.

**Business Outlook**
For reasons discussed elsewhere in this report, it is unlikely that BF Realty will continue to have any economic interest in Brookfield. BF Realty's tax loss carry-forward position may provide an opportunity to generate value if an appropriate restructuring transaction deals with creditor claims against BF Realty and its subsidiaries. Income from new and existing real estate or other ventures could be sheltered by these losses. To accomplish this, BF Realty will need to arrange financing for new ventures and assume inherent business risks. As a result of these uncertainties, including the creditor claims against BF Realty's U.S. subsidiaries where these tax loss positions exist, no value can be attributed to these tax losses at this time.

## 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. Information appearing elsewhere in the annual report is consistent with the consolidated financial statements.

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 and have reviewed management's discussion and analysis thereon. 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 BF Realty Holdings Limited

We have audited the consolidated balance sheets of BF Realty Holdings Limited as at December 31, 1992 and 1991 and the pro forma consolidated balance sheet as at December 31, 1991, and the consolidated 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991, 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 balance sheet presents fairly, in all material respects, the financial position of the Company as at December 31, 1991 in accordance with the basis of accounting described in Note 3C to the financial statements.

Toronto, Ontario
June 11, 1993

DELOITTE & TOUCHE
Chartered Accountants

# Consolidated Balance Sheet

(Brookfield Development Corporation was consolidated in the accounts for 1991 and is accounted for on the cost basis at December 31, 1992 with pro forma comparative amounts included for 1991)

| As at December 31 | Note Reference | 1992 | *Pro forma 1991* | 1991 |
|---|---|---|---|---|
| | | (in thousands of dollars) | | |
| **Assets** | | | | |
| Properties: | | | | |
| Rental | 5 | $ — | *$ —* | $1,867,273 |
| Held for sale or restructuring | 6 | 2,288 | *15,361* | 377,947 |
| | | 2,288 | *15,361* | 2,245,220 |
| Mortgages and notes receivable | 7 | 2,968 | *967* | 193,734 |
| Cash and term deposits | 8 | 649 | *1,509* | 41,000 |
| Amounts receivable | | 111 | *471* | 16,806 |
| Other assets | | 20 | *79* | 3,085 |
| Investment in Brookfield | 4 | — | *115,935* | — |
| | | $ 6,036 | *$ 134,322* | $2,499,845 |
| **Liabilities** | | | | |
| Debt on properties: | | | | |
| Rental | 9 | $ — | *$ —* | $1,140,181 |
| Held for sale or restructuring | | 25,581 | *37,410* | 96,443 |
| | | 25,581 | *37,410* | 1,236,624 |
| Secured bank indebtedness | 9 | 2,138 | *—* | 154,796 |
| Secured capital loans of subsidiary | 9 | — | *—* | 783,480 |
| Secured advances payable to Brookfield | 9 | 267,772 | *215,937* | — |
| Accounts and other payables | 10 | 49,728 | *106,360* | 265,208 |
| Subordinated debentures | 11 | 154,401 | *141,354* | 141,354 |
| | | 499,620 | *501,061* | 2,581,462 |
| **Preference Shares of Subsidiaries** | 12 | — | *—* | 285,122 |
| **Preference Shares** | 14 | 106,859 | *106,859* | 106,859 |
| **Common Shareholders' Deficit** | 14 | (600,443) | *(473,598)* | (473,598) |
| | | $ 6,036 | *$ 134,322* | $2,499,845 |

The Company's ability to continue as a going concern is dependent on the continued co-operation of its creditors, the completion of a financial restructuring and the attainment of profitable operations (See also Note 2).

Approved by the Directors:

Lawrence H. Herber

Lawrence H. Herber, Director

W. Chippindale

Warren Chippindale, Director

## Consolidated Statement of Operations

| For the years ended December 31 | Note Reference | *Consolidated Entities* *Other* | *Brookfield*[1] | 1992 | 1991 |
|---|---|---|---|---|---|
| | | | (in thousands of dollars) | | |
| **Revenue** | | | | | |
| Rental | | *$ —* | *$ 92,546* | **$ 92,546** | $106,575 |
| Interest and other | | *123* | *10,384* | **10,507** | 16,062 |
| Total revenue | | *123* | *102,930* | **103,053** | 122,637 |
| **Expenses** | | | | | |
| Rental operating costs | | — | *50,886* | **50,886** | 59,000 |
| Interest | 15 | *13,077* | *41,198* | **54,275** | 62,187 |
| General, administrative and reorganization costs | | *393* | *4,688* | **5,081** | 5,959 |
| Depreciation and amortization | | — | *7,762* | **7,762** | 10,259 |
| Preference share dividends of subsidiaries | | *1,671* | *11,451* | **13,122** | 13,568 |
| Provisions | 17 | *56,252* | *75,708* | **131,960** | — |
| Total expenses | | *71,393* | *191,693* | **263,086** | 150,973 |
| **Net loss** | | *$(71,270)* | *$ (88,763)* | **$(160,033)** | $ (28,336) |
| **Loss per Common Share** | | | | | |
| Basic and fully diluted | | | | **$(1.02)** | $(0.23) |

(1) Includes subsidiaries effectively controlled by Brookfield.

## Consolidated Statement of Deficit

| For the years ended December 31 | **1992** | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Deficit, beginning of year | **$ (945,603)** | $(917,267) |
| Net loss | **(160,033)** | (28,336) |
| **Deficit, End of Year** | **$(1,105,636)** | $(945,603) |

## Consolidated Statement of Cash Flow From Operations

| For the years ended December 31 | **1992** | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Net loss | **$ (160,033)** | $ (28,336) |
| Items not requiring a current outlay of cash: | | |
| Depreciation and amortization | **7,762** | 10,259 |
| Foreign currency and other provisions | **56,252** | — |
| Provision for diminution in property values | **75,708** | — |
| **Cash Flow From Operations** | **$ (20,311)** | $ (18,077) |
| | | |
| **Cash Flow per Common Share** | | |
| Basic and fully diluted | **$(0.18)** | $(0.17) |

# Consolidated Statement of Changes in Financial Position

| For the years ended December 31 | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| INFLOWS (OUTFLOWS) | | |
| **Operational Activities** | | |
| Cash flow from operations | **$ (20,311)** | $ (18,077) |
| Mortgages, notes, amounts receivable and other assets | **129,574** | 15,141 |
| Accounts and other payables | **(30,094)** | (22,892) |
| **Cash Provided from (Applied to) Operational Activities** | **79,169** | (25,828) |
| **Financing Activities** | | |
| Debt on properties: | | |
| Funding, net of repayments | **185,767** | 154,743 |
| Discharged through sales of properties | **(32,930)** | (136,412) |
| Secured bank indebtedness | **30,940** | (18,711) |
| Advances and secured capital loans of subsidiary | **86,781** | 166,426 |
| Subordinated debentures | **13,047** | 10,764 |
| Common shares issued | **—** | 41 |
| Foreign currency adjustment | **(6,057)** | 1,987 |
| **Cash Provided from Financing Activities** | **277,548** | 178,838 |
| **Investment Activities** | | |
| Cash used to develop properties: | | |
| Rental | **(341,951)** | (362,279) |
| Held for sale or restructuring | **(100,039)** | (79,203) |
| Recovery of real estate costs through sales of properties: | | |
| Rental | **12,353** | 118,639 |
| Held for sale or restructuring | **32,569** | 154,529 |
| **Cash Applied to Investment Activities** | **(397,068)** | (168,314) |
| **Decrease in Cash and Term Deposits** | **$ (40,351)** | $ (15,304) |

**1. Nature of Business**

On August 19, 1991, the Company's name was changed to BF Realty Holdings Limited (BF Realty) from BCE Development Corporation. BF Realty operates as a real estate holding company.

**2. Continuation of the Business**

While the financial statements of BF Realty 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, several adverse conditions exist which cast substantial doubt upon BF Realty's ability to continue operations as a going concern.

In view of the financial difficulties experienced in recent years, BF Realty is attempting to develop a proposal to its creditors and shareholders to restructure its affairs.

BF Realty has entered into an agreement with BCE Inc. (BCE) and Carena Developments Limited (Carena) under which secured capital loans have been provided to Brookfield Development Corporation (Brookfield). The secured capital loans at December 31, 1992 totalled $881,790,000, were guaranteed by BF Realty and matured on April 30, 1993. Brookfield in turn has provided secured advances to BF Realty which totalled $267,772,000 at December 31, 1992. BF Realty has no financial resources with which to meet these and its other obligations. BF Realty's ability to continue operations as a going concern is dependent upon the successful completion of a restructuring, which may include the conversion of the secured capital loans to equity of Brookfield, concessions from BF Realty's secured lenders including Brookfield, concessions from BF Realty's public securityholders, continued interim funding from Brookfield and the attainment of profitable operations. BF Realty has been unable to obtain concessions from secured lenders and it is uncertain that an agreement can be reached. If BF Realty is unable to obtain a consensus among BF Realty's secured lenders in favour of a restructuring plan, or a plan is not approved by public securityholders, secured lenders will be entitled to enforce their rights as creditors of BF Realty. With respect to secured capital loans provided to Brookfield by BCE and Carena, they are entitled, among other remedies, to enforce their pledge of the outstanding common shares of Brookfield held by BF Realty. In either circumstance, Brookfield is unlikely to remain a subsidiary of BF Realty and BF Realty will not have any economic interest in Brookfield.

If the going concern assumption were not appropriate for these consolidated financial statements, adjustments would be necessary to restate the carrying values of assets and liabilities to their liquidation values with a corresponding increase in the net loss and common shareholders' deficit.

**3. Summary of Significant Accounting Policies**

A. *General*
The Company's accounting policies and its standards of financial disclosure 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. At December 31, 1992 it was determined that BF Realty no longer controlled Brookfield and accordingly the investment in Brookfield has been accounted for using the equity method up to that date, and on the cost basis thereafter (See also Note 4).

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, revenue and expenses.

C. *Pro Forma Consolidated Balance Sheet*
The pro forma consolidated balance sheet as at December 31, 1991 has been prepared for purposes of comparison to demonstrate the effect on the December 31, 1991 balance sheet of the Company assuming it no longer controlled Brookfield at that date. Accordingly, for 1991 the

investment in Brookfield has been accounted for using the equity basis of accounting for the pro forma consolidated balance sheet. Pro forma financial information is included in these notes where it differs from the prior year presentation.

D. *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 carrying value of income producing properties. Properties under development or held for future 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 projects the cash flow for each property on an undiscounted basis, over a maximum period of fifteen years and, as a result of not discounting the cash flow, the carrying value may be materially greater than the current market value. These projections take into account the specific business plan for each property and management's assessment of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Provision 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. These reserves are drawn down in future periods as operating losses are incurred.

(iii) Capitalized Charges

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

(iv) 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, a rental property is categorized as 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.

E. *Properties Held for Sale or Restructuring*

At December 31, 1990, the Company completed the identification of non-strategic properties and formalized plans for their disposition or restructuring. These properties and the related liabilities have been segregated from those of continuing operations and include residential lands under development, suburban shopping centres, commercial development sites and residential condominiums held for sale.

(i) Carrying Values

These properties are carried at the lower of cost and net realizable value. The net realizable value 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 projects the cash flow for each property on a discounted basis, over a maximum period of fifteen years. These projections take into account the specific business plan for each property and management's assessment of the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Residential Lands Under Development for Subsequent Sale

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

Income 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. Income from the sale of residential homes is recognized when the sale has been completed and the purchaser is entitled to occupancy.

(iii) Other Properties Held for Sale or Restructuring

Commencing January 1, 1991, the Company adopted the cost recovery method of accounting for these properties. Under this method, revenues associated with these properties and proceeds from sales are treated as a recovery of costs. Related costs and expenses are capitalized. The related costs include interest on specific and general debt, tenant inducements, property taxes, disposition and overhead costs. Upon sale, the Company recognizes the sales 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.

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. *Participating Mortgages*

The cash method is used to account for participating mortgages.

H. *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. Prior to December 31, 1992, the gains and losses from the foreign currency translations of the Company's investments in foreign operations were deferred and included in common shareholders' deficit.

I. *Per Share Calculations*

Basic 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 both paid and in arrears, on the Senior Preference Shares and Class A Preference Shares.

**4. Investment in Brookfield Development Corporation**
(See also Notes 17 and 22)

In 1991 an agreement was reached to defer the maturity of the secured capital loans provided to Brookfield until April 30, 1993 in contemplation of a financial restructuring. Brookfield's liabilities, including the secured capital loans, exceed the carrying value of its assets on December 31, 1992. Furthermore, by December 31, 1992, management recognized that a restructuring involving a rights offering and conversion to equity of the secured capital loans would not be feasible and, accordingly, Brookfield would not be able to meet the payment scheduled on April 30, 1993. In addition, additional funding from the company owned by BCE and Carena was required. Accordingly, BF Realty must rely upon the co-operation of Brookfield's secured lenders in the exercise of control over Brookfield. Further to this development, on April 30, 1993 it was confirmed that the loans could not be retired. This confirmed the assumption made on December 31, 1992.

In these circumstances, BF Realty has accounted for its investment in Brookfield on the cost method effective December 31, 1992. Accordingly, Brookfield's accounts as at December 31, 1992, which include assets of $2,789,826,000, liabilities of $1,803,196,000 and preferred shares of subsidiaries of $154,000,000 and secured capital loans of $881,790,000 have not been included in BF Realty's consolidated balance sheet. The operations of Brookfield for the year ended December 31, 1992 have been recorded in BF Realty's consolidated statement of operations. Consistent with the above, BF Realty provided for the full carrying value of its investment in Brookfield amounting to $25,501,000.

**5. Rental Properties**

Rental properties consist of office, retail and mixed use urban projects.

| | **1992** | *Pro forma 1991* | 1991 |
|---|---|---|---|
| | (in thousands of dollars) | | |
| Income producing | $ — | *$ —* | $ 667,495 |
| Accumulated depreciation | — | *—* | 17,359 |
| | — | *—* | 650,136 |
| Under development | — | *—* | 1,109,744 |
| Held for future development | — | *—* | 107,393 |
| | $ — | *$ —* | $1,867,273 |

**6. Properties Held for Sale or Restructuring**

Properties held for sale or restructuring consist of residential lands under development for subsequent sale, suburban shopping centres, commercial development sites and residential condominiums held for sale.

| | **1992** | *Pro forma 1991* | 1991 |
|---|---|---|---|
| | (in thousands of dollars) | | |
| Residential lands under development for subsequent sale | $ — | *$ —* | $ 214,958 |
| Other properties held for sale or restructuring | **2,288** | *15,361* | 162,989 |
| | **$ 2,288** | *$ 15,361* | $ 377,947 |

**7. Mortgages and Notes Receivable**

Mortgages and notes receivable yield a weighted average interest rate of 9.4% (Pro forma 1991 – 10.8%; 1991 – 8.7%) per annum and mature as follows:

| | | 1992 |
|---|---|---|
| | | (in thousands of dollars) |
| Years ending | December 31, 1993 | $ 743 |
| | December 31, 1994 | 706 |
| | December 31, 1995 | 1,519 |
| | | $ 2,968 |

## 8. Cash and Term Deposits

Included in cash and term deposits are amounts totalling $608,000 (Pro forma 1991 – $1,506,000; 1991 – $40,877,000) which can be applied only to specific liabilities, or only become available to the Company in the future.

## 9. Debt on Properties and Secured Indebtedness

| | 1992 | *Pro forma 1991* | 1991 |
|---|---|---|---|
| | (in thousands of dollars) | | |
| Debt on properties: | | | |
| Rental | **$ —** | *$ —* | $1,140,181 |
| Held for sale or restructuring | **25,581** | *37,410* | 96,443 |
| | **25,581** | *37,410* | 1,236,624 |
| Secured bank indebtedness: | | | |
| Mortgages and notes receivable | **2,138** | — | 15,319 |
| Revolving bank line | **—** | — | 139,477 |
| Secured capital loans of subsidiary | **—** | — | 783,480 |
| Secured advances payable to Brookfield | **267,772** | *215,937* | — |
| | **269,910** | *215,937* | 938,276 |
| | **$295,491** | *$253,347* | $2,174,900 |

The Company's secured indebtedness bears interest at floating rates and is due on demand.

## 10. Accounts and Other Payables

| | 1992 | *Pro forma 1991* | 1991 |
|---|---|---|---|
| | (in thousands of dollars) | | |
| Trade payables and accrued liabilities | **$ 25,567** | *$ 33,603* | $ 96,667 |
| Construction accruals and holdbacks | **—** | — | 40,689 |
| Notes payable | **20,334** | *60,091* | 64,529 |
| Accrued interest on project debt and other secured liabilities | **—** | *54* | 8,475 |
| Costs to complete properties sold | **3,813** | *12,601* | 29,472 |
| Deferred income and deposits | **14** | *11* | 25,376 |
| | **$ 49,728** | *$106,360* | $ 265,208 |

## 11. Subordinated Debentures

(See also Note 21)

| | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| 10.75% Subordinated Debentures | **$ 26,089** | $ 26,089 |
| 8% Subordinated Debentures | **99,994** | 99,994 |
| | **126,083** | 126,083 |
| Accrued and unpaid interest | **28,318** | 15,271 |
| | **$154,401** | $ 141,354 |

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. The trustee for the 8% subordinated debentures has commenced an action to accelerate the due date of the debentures and enforce payment. 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 on the liability section of the balance sheet. The Company did not make the semi-annual instalments of principal and interest due on April 30, 1992 and October 31, 1992.

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 on the liability section of the balance sheet. The subordinated debentures mature on June 30, 1998, and are redeemable at the option of the Company, in whole or in part, after March 31, 1992 if the weighted average price at which the common shares traded on The Toronto Stock Exchange during 20 consecutive trading days was at least $6.00 or at any time after June 30, 1993 at par plus accrued interest.

## 12. Preference Shares of Subsidiaries

(See also Notes 22D and F)

| Issued and Outstanding | | 1992 | *Pro forma 1991* | 1991 |
|---|---|---|---|---|
| | | (in thousands of dollars) | | |
| | **Brookfield Development Corporation** | | | |
| 1,200,000 | Class C Preference Shares, Series 1 | $ — | $ — | $ 30,000 |
| 4,044,872 | Class D Preference Shares, Series 1 | — | — | 101,122 |
| | **Brookfield Capital I Corporation** | | | |
| 2,000,000 | 7.25% Preference Shares | — | — | 50,000 |
| | **BCE Place Finance Corporation** | | | |
| 2,496,000 | 7.375% Preference Shares, Series 1 | — | — | 62,400 |
| 1,664,000 | 7.75% Preference Shares, Series 2 | — | — | 41,600 |
| | | $ — | $ — | $ 285,122 |

## 13. Contingencies and Commitments

(See also Note 9)

A. BF Realty has guaranteed Brookfield property and other loans amounting to $600,227,000 (Pro forma 1991 – $353,476,000). BF Realty has also guaranteed Brookfield's secured capital loans amounting to $881,790,000 (1991 – $783,480,000).

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.

## 14. Shareholders' Equity (Deficit)

| | Note Reference | 1992 | 1991 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| Preference shares | 14A | **$ 106,859** | $ 106,859 |
| Common Shareholders' Equity (Deficit) | | | |
| Common shares | 14B | **$ 456,229** | $ 456,229 |
| Contributed surplus | | **48,964** | 48,964 |
| Deficit | | **(1,105,636)** | (945,603) |
| Foreign currency adjustment | 14C | **—** | (33,188) |
| | | **$ (600,443)** | $(473,598) |

Shares

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. |

| Issued and Outstanding – | | | 1992 | 1991 |
|---|---|---|---|---|
| | | | (in thousands of dollars) | |
| 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** | $106,859 |
| Common Shares | | | | |
| | 166,015,046 | Common Shares | **$ 456,229** | $456,229 |

A. *Preference Shares:*

(i) Preference Shares, Senior Series A and B:
Cash dividends are payable quarterly.

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 on October 31, 1993, 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.

Cumulative dividends of $3,127,000 on the Senior Series A, and $2,275,000 on the Senior Series B preference shares are in arrears (1991 – $2,212,000 and $1,609,000, respectively).

(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.

The shares are redeemable, in whole or in part, at the option of the Company after December 31, 1992 at the greater of $25.75 per share and the Canadian dollar equivalent of U.S. $19.6685 per share declining after September 30, 1993, to the greater of $25 per share and the Canadian dollar equivalent of U.S. $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 U.S. $19.0956 per share plus accrued dividends. The shares are also retractable at the option of the holder at the same amount if, on or before September 30, 1993, BCE ceases to beneficially own more than 50% of the common shares of BF Realty.

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.

Cumulative dividends of $28,350,000 are in arrears (1991 – $20,250,000).

B. *Common Shares:*

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

| | **1992** | | 1991 | |
|---|---|---|---|---|
| | **Common Shares** | **Amount** | Common Shares | Amount |
| Balance, beginning of year | **166,015,046** | **$456,229,000** | 166,012,237 | $456,188,000 |
| Common shares issued on conversion of convertible subordinated debentures | — | — | 2,809 | 41,000 |
| Balance, end of year | **166,015,046** | **$456,229,000** | 166,015,046 | $456,229,000 |

The Company cancelled the employee and key executive stock option plans subsequent to December 31, 1992.

C. *Foreign Currency Adjustment:*
The following is an analysis of the foreign currency translation adjustment included in common shareholders' deficit resulting from the translation of the financial statements of foreign operations:

| | **1992** | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Balance, beginning of year | **$ (33,188)** | $ (32,914) |
| Translation adjustment for the year | **(11,115)** | (274) |
| Recognition of deferred foreign currency losses | **44,303** | — |
| Balance, end of year | **$ —** | $ (33,188) |

## 15. Interest

| For the years ended December 31 | **1992** | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Interest charges were incurred from: | | |
| Debt on properties | **$103,909** | $111,041 |
| Secured bank indebtedness | **9,696** | 13,048 |
| Advances and secured capital loans of subsidiary | **48,910** | 61,369 |
| Subordinated debentures | **13,047** | 10,805 |
| Other | **3,353** | 1,487 |
| | **178,915** | 197,750 |
| Less interest directly capitalized or allocated to: | | |
| Rental properties under development and held for future development | **101,608** | 102,699 |
| Properties held for sale or restructuring | **23,032** | 32,864 |
| | **124,640** | 135,563 |
| | **$ 54,275** | $ 62,187 |
| The interest expense was incurred as follows: | | |
| BF Realty | **$ 13,077** | $ 26,117 |
| Brookfield | **41,198** | 36,070 |
| | **$ 54,275** | $ 62,187 |

## 16. Income Taxes

The Company and its subsidiaries have accumulated tax losses of approximately $500,000,000, which will expire between 1995 and 2007. The potential benefit is in substantial doubt and the use of these losses has not been reflected in the financial statements. The tax authorities of various jurisdictions have imposed restrictions which may limit the use of some of these losses.

## 17. Foreign Currency and Other Provisions

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

| | (in thousands of dollars) |
|---|---|
| Provision for loss on investment in subsidiary (See also Note 4) | $ 25,501 |
| Provision for other claims of subsidiary | 51,835 |
| Recognition of foreign currency losses (See also Note 14C) | 44,303 |
| Recovery of prior years provision for unsecured liabilities | (65,387) |
| | $ 56,252 |

## 18. Capitalized Costs

| | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| During the year the Company capitalized the following costs: | | |
| Interest | **$ 124,640** | $ 135,563 |
| Property taxes | **34,359** | 18,187 |
| General, administrative and reorganization | **9,929** | 13,499 |
| Net rental income from properties under development and held for sale or restructuring | **(28,317)** | (22,230) |
| Current year costs recovered through sale of properties | **(10,039)** | (13,444) |
| | **$ 130,572** | $ 131,575 |
| These costs were capitalized to properties as follows: | | |
| Rental properties under development and held for future development | **$ 107,806** | $ 114,299 |
| Properties held for sale or restructuring | **22,766** | 17,276 |
| | **$ 130,572** | $ 131,575 |

The majority of these costs were capitalized to Brookfield's assets which were no longer consolidated at December 31, 1992 (See also Note 4).

## 19. Joint Ventures and Partnerships

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

| For the years ended December 31 | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Assets | **$ —** | $ 473,899 |
| Liabilities | **—** | 240,777 |
| Revenue | **—** | 45,385 |
| Expenses | **—** | 44,037 |

## 20. Segmented Information

| For the years ended December 31 | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Rental Revenue by Country: | | |
| Canada | **$ 4,108** | $ 3,083 |
| United States | **88,438** | 103,492 |
| Total Rental Revenue | **$ 92,546** | $ 106,575 |
| Net Rental Income by Country: | | |
| Canada | **$ 2,528** | $ 1,802 |
| United States | **39,132** | 45,773 |
| Net rental income | **41,660** | 47,575 |
| Unallocated corporate items, net | **(56,611)** | (62,343) |
| | **(14,951)** | (14,768) |
| Dividends of subsidiaries | **(13,122)** | (13,568) |
| Provisions | **(131,960)** | — |
| Net loss | **$(160,033)** | $ (28,336) |

| As at December 31 | 1992 | *Pro forma 1991* | 1991 |
|---|---|---|---|
| | (in thousands of dollars) | | |
| ASSETS | | | |
| Properties: | | | |
| Canada | **$ —** | *$ —* | $ 882,616 |
| United States | **2,288** | *15,361* | 1,362,604 |
| | **2,288** | *15,361* | 2,245,220 |
| Other corporate assets | **3,748** | *118,961* | 254,625 |
| Consolidated assets | **$6,036** | *$ 134,322* | $2,499,845 |

## 21. Related Party Transactions and Transactions with Carena Developments Limited

A. BF Realty is approximately 67% owned by BCE. BCE entered into an agreement with Carena whereby Carena undertook to provide management services to Brookfield. In the normal course of business, Brookfield 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 and are reviewed by the Independent Directors.

B. BCE and Carena, through a company owned by them, have provided Brookfield with secured capital loans amounting to $881,790,000 (1991 – $783,480,000) (See also Note 22E). The total interest incurred on this facility amounted to $48,486,000 for the year ended December 31, 1992 (1991 – $61,369,000). The Class C Preference shares of Brookfield totalling $30,000,000 are considered an additional utilization of this facility. Accrued but unpaid cumulative dividends of $5,607,000 have been provided for on the Class C Preference Shares of Brookfield (1991 – $3,936,000). This jointly owned company also advanced funds totalling $25,212,000 (1991 – nil) to Brookfield (See also Note 22C). Amounts may be advanced at the option of the jointly owned company. In addition, BCE and Carena have made direct advances to Brookfield of $5,000,000 each. These unsecured advances total $10,212,000 including accrued interest at December 31, 1992 (1991 – nil).

C. Carena has indemnified the insurance company for a surety bond provided for the development of the Scripps Ranch Villages project owned by Brookfield. U.S. $55,600,000 in bonds were issued as of December 31, 1992, of which U.S. $29,400,000 represents costs to complete. The fee for the year ending December 31, 1992 for this indemnity was U.S. $527,000 (1991 – nil).

D. BCE holds $25,000,000 of BF Realty's 8% subordinated debentures. Interest in arrears totalled $5,416,000 as at December 31, 1992 (1991 – $3,000,000).

E. BCE holds $101,122,000 of Class D Preference Shares of Brookfield. Dividends of $12,431,000 were in arrears as at December 31, 1992 (1991 – $7,070,000).

## 22. Information on Brookfield

Brookfield's condensed financial statements are as follows:

**Consolidated Balance Sheet**

| As at December 31 | Note Reference | 1992 | 1991 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| **Assets** | | | |
| Properties | 22 B | **$2,702,305** | $2,229,859 |
| Other assets | | **87,521** | 251,599 |
| | | **$2,789,826** | $2,481,458 |
| **Liabilities** | | | |
| Debt on properties and other indebtedness | 22 C | **$1,667,861** | $1,354,010 |
| Accounts and other payables | | **135,335** | 158,848 |
| **Preference Shares of Subsidiaries** | 22 D | **154,000** | 154,000 |
| **Capital Base** | | | |
| Secured capital loans | 22 E | **881,790** | 783,480 |
| Shareholders' equity (deficit) | 22 F | **(49,160)** | 31,120 |
| | | **$2,789,826** | $2,481,458 |

**Consolidated Statement of Operations**

| For the years ended December 31 | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Revenue | | |
| Rental | **$ 92,546** | $ 81,342 |
| Interest and other | **10,384** | 15,247 |
| Total revenue | **102,930** | 96,589 |
| Expenses | | |
| Rental operating costs | **50,886** | 45,895 |
| Interest | **41,198** | 36,070 |
| General and administrative | **4,688** | 4,881 |
| Depreciation and amortization | **7,762** | 6,490 |
| Total expenses | **104,534** | 93,336 |
| | **(1,604)** | 3,253 |
| Preference share dividends of subsidiaries | **(11,451)** | (11,451) |
| Provision for diminution | **(75,708)** | (9,544) |
| Net loss | **$ (88,763)** | $ (17,742) |

**Consolidated Statement of Deficit**

| For the years ended December 31 | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Deficit, beginning of year | **$ (73,160)** | $ (53,301) |
| Net loss | **(88,763)** | (17,742) |
| | **(161,923)** | (71,043) |
| Dividends: | | |
| Class C Preference Shares | **(1,671)** | (2,117) |
| Deficit, end of year | **$ (163,594)** | $ (73,160) |

A. *Summary of Brookfield's Significant Accounting Policies*

Brookfield's significant accounting policies are consistent with those of BF Realty (See also Note 3).

B. *Properties*

Brookfield's rental properties consist of office, retail and mixed use urban projects. Properties held for sale consist of residential lands under development for subsequent sale, suburban shopping centres, commercial development sites and residential condominiums held for sale.

| | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Rental Properties: | | |
| Income producing | **$1,164,902** | $ 667,495 |
| Accumulated depreciation | **26,621** | 17,359 |
| | **1,138,281** | 650,136 |
| Under development | **1,105,864** | 1,109,744 |
| Held for future development | **53,870** | 107,393 |
| | **2,298,015** | 1,867,273 |
| Properties Held for Sale: | | |
| Residential lands under development for subsequent sale | **267,542** | 214,958 |
| Other properties held for sale | **136,748** | 147,628 |
| | **404,290** | 362,586 |
| | **$2,702,305** | $2,229,859 |

C. *Debt on Properties and Other Indebtedness*

| | **1992** | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| Debt on properties: | | |
| Rental | **$1,391,586** | $1,140,181 |
| Held for sale | **66,723** | 59,033 |
| | **1,458,309** | 1,199,214 |
| Secured bank indebtedness: | | |
| Mortgages and notes receivable | **3,456** | 15,319 |
| Revolving bank line | **170,672** | 139,477 |
| Secured advances from BCE and Carena | **25,212** | — |
| Unsecured advances from BCE and Carena | **10,212** | — |
| | **209,552** | 154,796 |
| | **$1,667,861** | $1,354,010 |

The maturity schedule of Brookfield's debt is as follows:

| | | Total |
|---|---|---|
| | | (in thousands of dollars) |
| Years ending December 31, | 1993 | $ 272,399 |
| | 1994 | 302,201 |
| | 1995 | 80,667 |
| | 1996 | 136,193 |
| | 1997 | 37,100 |
| Subsequent to 1997 | | 839,301 |
| | | $1,667,861 |

(i) Debt on properties
Fixed rate financing bears interest, including participation features, at a weighted average rate of 7.5% (1991 – 7.8%) per annum after giving effect to money market instruments used to fix interest rates. Brookfield has mortgages outstanding totalling $477,354,000 (1991 – $454,977,000) 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%.

(ii) Revolving bank line
Brookfield's secured revolving bank line has an authorized limit of $200 million and bears interest at floating rates. Borrowings are secured by charges on substantially all of Brookfield's assets and rank senior to the secured capital loans. This facility matures June 30, 1993 and Brookfield is negotiating renewal terms.

(iii) Secured advances from BCE and Carena
In addition to the secured capital loans, the company jointly owned by BCE and Carena has advanced a further $25,212,000 (1991 – nil) to Brookfield. Amounts may be advanced at the option of the jointly owned company as needed to assist Brookfield. The demand loans bear interest at a rate equal to the prime rate of a Canadian chartered bank plus one per cent and rank in priority to the secured capital loans.

(iv) Unsecured advances from BCE and Carena
BCE and Carena have made direct advances to Brookfield of $5,000,000 each. These advances total $10,212,000 including accrued interest at December 31, 1992 (1991 – nil). These unsecured demand advances bear interest at a rate equal to the prime rate of a Canadian chartered bank.

D. *Preference Shares of Subsidiaries*

| Issued and Outstanding | 1992 | 1991 |
|---|---|---|
| | (in thousands of dollars) | |
| **Brookfield Capital I Corporation** | | |
| 2,000,000 7.25% Preference Shares, Series 1 | **$ 50,000** | $ 50,000 |
| **BCE Place Finance Corporation** | | |
| 2,496,000 7.375% Preference Shares, Series 1 | **62,400** | 62,400 |
| 1,664,000 7.75% Preference Shares, Series 2 | **41,600** | 41,600 |
| | **$154,000** | $154,000 |

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

(i) Brookfield Capital I Corporation (formerly 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 Brookfield Capital 1 Corporation, in whole or in part, after December 31, 1992 at $25.25 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.

A subsidiary of BF Realty 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 Brookfield. BF Realty is obligated to subscribe for sufficient common shares of Brookfield Capital I Corporation to enable it to make dividend and other payments on the shares.

(ii) 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 BCE Place Finance Corporation, 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 BCE Place Finance Corporation, 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.

BF Realty is obligated to purchase 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 Brookfield.

E. *Secured Capital Loans*

BCE and Carena, through a company owned by them, have established a secured capital loan facility for Brookfield which amounted to $881,790,000 including interest advances at December 31, 1992 (1991 – $783,480,000). The secured capital loans matured on April 30, 1993. BCE and Carena have not taken steps to realize on their security. Advances under this facility are secured by charges on substantially all of Brookfield's assets and are guaranteed by BF Realty. The 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. In addition, $30,000,000 of the facility has been drawn down through the issuance of Class C Preference Shares of Brookfield.

Brookfield expects that, as part of a restructuring plan, BCE and Carena will convert their secured capital loans and preference share investment into common shares of Brookfield. If a restructuring plan acceptable to Brookfield's secured lenders cannot be agreed upon, or public securityholders of BF Realty do not approve the restructuring plan, BCE and Carena are entitled, among other remedies, to enforce their pledge of the outstanding common shares of Brookfield.

F. *Shareholders' Equity (Deficit)*

| Issued and Outstanding | Note Reference | 1992 | 1991 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| Preference shares | | **$ 131,122** | $ 131,122 |
| Common shares | | **109,347** | 109,347 |
| Contributed surplus | | **80,619** | 80,619 |
| Deficit | | **(163,594)** | (73,160) |
| Foreign currency adjustment | | **9,283** | (871) |
| Secured advances to BF Realty | 22F(i) | **(215,937)** | (215,937) |
| | | **$ (49,160)** | $ 31,120 |

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, without par value |

| Issued and Outstanding | | 1992 | 1991 |
|---|---|---|---|
| | | (in thousands of dollars) | |
| 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 | | | |
| 245,994 | Common Shares | **$ 109,347** | $ 109,347 |

(i) Secured Advances to BF Realty

The secured advances by Brookfield 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 shareholder's equity.

The advances to parent amount to $215,937,000, net of provisions totalling $51,835,000. During the year, Brookfield accrued $19,533,000 in interest on the loan which has been wholly provided for.

Brookfield has no obligation to advance funds to BF Realty, other than to settle BF Realty liabilities specifically guaranteed by Brookfield, for which provisions have been made.

**23. Comparative Figures**

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

## Board of Directors

**Gordon E. Arnell**
President and Chief Executive Officer
Carena Developments Limited
Toronto

**James D. Beatty**
President
Trinity Capital Corporation
Toronto

**Warren Chippindale** (1)
Company Director
Formerly Chairman and Chief Executive Partner
Coopers & Lybrand
Montreal

**Richard J. Elder**
Richardson Greenshields
Toronto

**Josef J. Fridman**
Senior Vice President
Law and Corporate Services
BCE Inc.
Montreal

**Lawrence H. Herber**
President
BF Realty Holdings Limited
Toronto

**Edward A. Kirk**
Gartley Kirk Realties Inc.
Toronto

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

**John R. McCaig** (2)
Chairman and Chief Executive Officer
Trimac Limited
Calgary

**E.F. Anthony Merchant**
Partner
Merchant Law Group
Regina

**Edwin B. Nordholm**
Vice President
Carena Developments Limited
Toronto

**Allan S. Olson** (1) (2)
President
Olson Management Ltd.
Edmonton

**Loudon F. Owen** (1)
McLean, Watson Group
London, England

**William J. Pringle**
President
Brookfield Development Corporation
Toronto

**Barbara A. Silverberg**
Vice President and Senior Counsel
Brookfield Development Corporation
Toronto

(1) Member of Audit Committee
(2) Member of Independent Directors Committee

## Corporate Officers

**Gordon E. Arnell**
Chairman

**Lawrence H. Herber**
President

**Michael D. Peires**
Controller

**William J. Pringle**
Senior Vice President and
Chief Financial Officer

**Barbara A. Silverberg**
Secretary

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**Auditors**
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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

10¾% Subordinated Debentures
Central Guaranty Trust Company

**Stock Exchange Listings**
Toronto
Ticker Symbol: BFR

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