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BF REALTY HOLDINGS LIMITED

Annual Report 1991

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at the Metro Toronto Convention Centre, 255 Front Street West, Toronto, on July 23, 1992 at 2:00 p.m. Shareholders are encouraged to attend the meeting.

Corporate Profile

BF Realty is in the process of a major financial restructuring which is expected to be concluded in 1993. BF Realty's business activities are conducted largely through its principal operating subsidiary, Brookfield Development Corporation. Copies of Brookfield's annual report are provided to BF Realty's shareholders with this report and are available to other interested parties on request.

Table of Contents

President's Report

In 1989, BF Realty was close to financial collapse, brought on by an unfinanced development program and operating losses from properties held in various subsidiaries which were draining resources. It was also clear at the time that a liquidation of the Company's assets would have resulted in substantial losses being suffered by most of BF Realty's unsecured creditors and a total loss for the Company's subordinated debentureholders and other public securityholders. Under these circumstances the Company entered into a financing agreement with BCE Inc. and Carena Developments Limited to provide BF Realty's principal operating subsidiary, Brookfield Development Corporation, with a secured capital loan which amounted to $783 million, including interest advances and $30 million in senior preference shares of Brookfield, at December 31, 1991. This financing enabled BF Realty to implement a new business plan which provided for:

- Financing and completing the Company's property development program through Brookfield;
- Selling non-strategic assets and focusing the Company's operations on the ownership and management of prime rental properties;
- Eliminating excessive overhead costs and reducing operating losses;
- Renegotiating the terms of property debts to match property cash flow; and
- Restructuring BF Realty's corporate debt and other obligations.

In addition to the secured capital loans provided by BCE and Carena, over $700 million of long-term financing has been arranged through Brookfield to enable the property development program to proceed on schedule. The asset disposition program has raised a further $400 million. Overhead and other administrative costs have been reduced by more than $30 million per annum compared with the level existing two years ago. By restructuring property debts and the ownership of certain properties, operating costs have been reduced by more than $50 million per annum. Property loan principal reductions aggregating $98 million were made by Brookfield to secure interest rate concessions and other important changes to the terms of restructured property debts which now carry an average interest rate of 7.8%.

Having met with much success with respect to the first four of the Company's major business objectives, Management believes BF Realty is now positioned to complete the restructuring of its corporate debt and other obligations.

The restructuring of BF Realty's corporate debt and other obligations is dependent on a common share rights offering to be completed by Brookfield. In June 1991, a committee of BF Realty's Independent Directors recommended to the Board of Directors that BF Realty defer proceeding with the proposed rights offering and related equity conversion of Brookfield's secured capital loans into Brookfield common shares. Pursuant to this recommendation, the Company negotiated an agreement with BCE and Carena, which deferred the maturity of their loans until April 30, 1993 in contemplation of a Brookfield rights offering and related equity conversion to occur during the first quarter of 1993 based on values as at December 31, 1992. If the rights offering is not completed on or prior to April 30, 1993, the credit facility becomes due. It is a condition of the credit facility that BCE and Carena are satisfied that Brookfield's project lenders and commercial banks support Brookfield and that the Company's own creditors will continue to defer the enforcement of any claims during this period. These arrangements were agreed to in order to preserve the opportunity for BF Realty's creditors and other securityholders to participate in any recovery in real estate values during the deferral period and in any benefits achieved from the successful implementation of the Company's and Brookfield's business plans. Although the Committee of Independent Directors recognized that there was no assurance that values would be restored during the deferral period, it felt strongly that the possibility of realizing greater value for BF Realty's investment in Brookfield should be preserved to the extent possible.

The alternative of selling the Company's and Brookfield's assets to repay Brookfield's secured capital loans and other secured bank loans remains unattractive, and would certainly lead to substantial losses for BF Realty's unsecured creditors and no hope of recovery for its subordinated debentureholders and other public securityholders.

We have prepared a separate annual report for Brookfield which is available to the Company's public securityholders and other interested parties. This report and

Brookfield's annual report outline the many operating and financial accomplishments during the past year. Notwithstanding that these accomplishments may have more than offset the loss of value caused by the steady deterioration in real estate markets, events over the next year are unlikely to result in any material improvement in net asset values. If this is the case, BF Realty may not be able to retain a meaningful equity interest in Brookfield. In any event BF Realty will conduct an independent assessment of values to determine the overall fairness of any proposed restructuring.

To provide a full understanding of BF Realty's financial position we have segregated financial information on BF Realty and Brookfield in the financial analysis and review section of this report and in note 21 to the financial statements. In summary, BF Realty holds real estate and other assets with a current net realizable value of less than $20 million, all of which have specific claims against them. The only assets available to settle BF Realty's corporate debt and other claims, are:

- The residual value attributable to BF Realty's equity investment in Brookfield, if any. This could be enhanced if common share purchase warrants or some other form of participation are granted to BF Realty with the concurrence of BCE and Carena at the time the secured capital loans are converted into common shares of Brookfield; and

- Any realizations arising from the possible use of BF Realty's unrecorded tax losses.

Total claims, including secured advances payable to Brookfield and others and the claims of the Company's subordinated debentures, exceed $500 million. As a result, significant compromises will have to be made by BF Realty's creditors and other claimants to accomplish the Company's financial restructuring.

Brookfield's secured claims and those of the Company's general creditors are in excess of $350 million and rank in priority to those of the Company's subordinated debentureholders. The trustee for the holders of the 8% subordinated debentures who are owed $112 million, has advanced a lawsuit in the face of these prior claims, which could delay or frustrate an equitable restructuring. This action has been pursued by the trustee despite a commitment by the Company to ensure all relevant regulatory and other bodies approve the restructuring. The Company is committed to continuing its efforts to maintain the priority of its creditor groups and to guard against any party frustrating the recovery of some value from the Company's interests in Brookfield and its tax losses.

We have worked tirelessly to minimize shareholder and creditor losses by maximizing values in the Company's rental properties and other operations conducted largely through Brookfield. It appears that these efforts to create value in the short term will result, at best, in only token recoveries by BF Realty's creditors from this source. However, we will continue to search for a method for BF Realty to participate in any value created through Brookfield over the medium term and to equitably allocate these potential benefits among BF Realty's creditors and public securityholders.

Lawrence H. Herber

Lawrence H. Herber
President

May 11, 1992

Financial Analysis and Review

At the beginning of 1990, the Company adopted a business plan which required major overhead and operating cost reductions, the sale of non-strategic assets, property debt restructurings and the strengthening of the capital base of Brookfield, the Company's principal operating subsidiary, to enable the completion of an extensive property development program which was underway.

An integral part of the business plan entailed the conversion of Brookfield's secured capital loans into Brookfield common shares in connection with a rights offering to be made to BF Realty's public securityholders. At the time the credit facility was established, the parties expected the rights offering and related equity conversion to be completed by June 30, 1991. However, at the request of BF Realty, BCE and Carena agreed to defer the maturity of their capital loans until April 30, 1993 and to apply all advances under the secured capital loans to the purchase of common shares of Brookfield in support of a Brookfield rights offering to be concluded in the first quarter of 1993, subject to the receipt of all requisite regulatory and other approvals. The objective of the deferral was to preserve the opportunity for BF Realty's creditors and public securityholders to participate in any recovery in real estate values during the deferral period and in any benefits achieved from the successful implementation of the Company's and Brookfield's business plan.

The Company, through Brookfield, has met with much success over the past year. The major structural aspects of all development projects have largely been completed, the asset disposition program is well advanced, and the restructuring of troubled rental properties is substantially completed. Unfortunately real estate markets in general have deteriorated.

Operating Results

The consolidated net operating loss for the year was $14.8 million on revenues of $122.6 million, compared with a net loss of $50.2 million on revenues of $191.3 million for 1990. The improvement in 1991 was due to the restructuring or sale of projects which had a significant negative impact on results in the previous year. Despite these improvements the Company will continue to report operating losses until BF Realty's debt has been restructured and Brookfield's secured capital loans are converted into common shares of Brookfield.

The segmentation of the consolidated operating results between BF Realty and Brookfield and their respective subsidiaries for 1991, with comparative consolidated results for 1990, is as follows:

			Consolidated	
($ 000's)	BF Realty	Brookfield	**1991**	1990
Net rental income	$ 12,128	$ 35,447	**$ 47,575**	$ 68,152
Interest and other income	815	15,247	**16,062**	43,275
Net operating revenue	12,943	50,694	**63,637**	111,427
Interest expense (1)	48,875	36,070	**62,187**	134,757
General and administrative	1,078	4,881	**5,959**	13,059
Depreciation and amortization	3,769	6,490	**10,259**	13,809
Total expenses	53,722	47,441	**78,405**	161,625
Net Operating Income (Loss)	$(40,779)	$ 3,253	**$(14,768)**	$ (50,198)

(1) $22,758,000 of interest on secured advances provided by Brookfield to BF Realty has been eliminated on consolidation, and Brookfield has provided for this amount as uncollectible.

The analysis which follows relates principally to BF Realty's operations conducted outside of Brookfield as Brookfield's annual report is provided to BF Realty shareholders with this report and is available to other interested parties upon request.

Net rental income

Net rental income, being rental revenues less rental operating costs (but before interest and depreciation charges) was provided by the following properties:

	($ 000's)
Republic Plaza	$11,144
Town Square	984
	$12,128

Both of the above rental properties were encumbered well in excess of their net realizable values. Brookfield assisted with the restructuring of Republic Plaza, which was held through a BF Realty wholly owned subsidiary. Brookfield acquired Republic Plaza and provided the required operating commitments and funds for a partial paydown of the property mortgage in exchange for interest rate concessions. As a result, the lenders and joint venture partners released BF Realty from claims which exceeded the value of the property. The Town Square project was sold during the year to the project's joint venture partners and lenders.

Interest and other income

Interest and other income of $815,000 arose principally from interest on notes receivable and from activities related to the rental properties sold during the year. Other income is expected to be nominal in 1992. Other income in 1990 included gains of $7.6 million relating to the sale of properties.

Interest expense

BF Realty's share of interest expense was as follows:

	($ 000's)
Interest on subordinated debentures accrued but not paid	$10,805
Interest on secured advances from Brookfield accrued but not paid	22,758
Net interest paid on property debt relating to assets sold	15,312
	$48,875

Interest expense in 1992 will arise exclusively from interest accruing on the Company's subordinated debentures and secured advances from Brookfield at levels approximating the amounts incurred during 1991.

General and administrative

General and administrative expenses of $1,078,000 arose as a result of the ongoing costs of operating a public company. Anticipated future costs are expected to be lower in 1992 due to reduced levels of activity.

Depreciation and amortization

The charge for depreciation and amortization of $3,769,000 relates to the properties sold during the year.

Balance Sheet Analysis

To assist creditors and other securityholders of BF Realty to understand the ranking of their respective interests and the assets available to support their respective claims, a balance sheet reflecting BF Realty's investment in Brookfield on an equity accounted basis has been presented in note 21 to the audited financial statements. The following is a summarized version of the Company's consolidated balance sheet, incorporating BF Realty and Brookfield and their respective subsidiaries as at December 31, 1991 together with consolidated amounts for 1990. Brookfield's annual report provides a detailed analysis of their portion of the consolidated assets and liabilities. This analysis is therefore restricted to BF Realty's assets and liabilities, excluding those of Brookfield.

			Consolidated[1]	
($ 000's)	BF Realty	Brookfield	**1991**	1990
Assets				
Properties	$ 15,361	$2,229,859	**$2,245,220**	$2,148,265
Mortgages, notes and other receivables	1,438	209,102	**210,540**	217,897
Cash and other assets	1,588	42,497	**44,085**	64,560
Secured loan to BF Realty[2]	—	215,937	—	—
Investment in Brookfield	115,935	—	—	—
	$ 134,322	$2,697,395	**$2,499,845**	$2,430,722
Liabilities and Shareholders' Equity (Deficiency)				
Property debt and other secured liabilities	$ 37,410	$1,354,010	**$1,391,420**	$1,453,041
Secured capital loans	—	783,480	**783,480**	617,054
Secured advances payable to Brookfield[2]	248,239	—	—	—
Accounts and other payables	106,360	158,848	**265,208**	283,085
Subordinated debentures	141,354	—	**141,354**	130,590
Preference shares of subsidiaries	—	154,000	**285,122**	285,122
Preference shares	106,859	131,122	**106,859**	106,859
Common shareholders' equity (deficiency)	(505,900)	115,935	**(473,598)**	(445,029)
	$ 134,322	$2,697,395	**$2,499,845**	$2,430,722

(1) See note 21 to the financial statements for consolidating adjustments.

(2) Brookfield reflects its advances to BF Realty in its financial statements after a provision of $32,302,000 charged to income in 1991.

Properties

BF Realty's remaining properties are held for sale or restructuring. They include two properties held by wholly owned subsidiaries, an historical property located in Minneapolis known as the Rand Tower (formerly known as the Dain Tower and Thorpe Building), and a condominium development called Hamilton Cove on Santa Catalina Island.

The Rand Tower is a 26 storey building comprising 135,000 square feet constructed in 1929, and a newer 8 storey structure comprising 40,000 square feet. The project's lead tenant vacated the premises in late 1991 leaving the buildings almost 90% vacant. The Company intends to renovate 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 are marketed as vacation homes. At year end there were 42 unsold units and the right to build 145 more. Some infrastructure is in place for these additional units. The Company has conducted an auction of the finished units and expects to close most of the units by the end of June, 1992. The Company is seeking a financial partner or purchaser to construct the balance of the project. The bank debt secured by this development substantially exceeds the net realizable value of the project.

Mortgages, notes and other receivables

At December 31, 1991 BF Realty's mortgages, notes and other receivables totalled $1,438,000 and are pledged to Brookfield as security for Brookfield's advances to BF Realty. They bear an average interest rate of 10.8% and mature in 1992.

Cash and other assets

Cash and other assets of $1,588,000 relate principally to the remaining properties owned by BF Realty and can be used only to apply against their development costs.

Investment in Brookfield

The investment in Brookfield represents all of the common shares of Brookfield, which are pledged to secure $248 million of advances received from Brookfield.

Property debt and other secured liabilities

BF Realty's property debt is secured by first mortgages on properties held for sale or restructuring and are guaranteed by Brookfield. The residual amount not satisfied by cash flow or sales proceeds from the related projects has been provided for by Brookfield and will be added to the secured advances made by Brookfield to BF Realty when the properties are sold.

Secured advances payable to Brookfield

These amounts 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 the Company's subordinated debentures during 1990, general operating costs, and other amounts to settle claims against BF Realty and its other subsidiaries. In 1991 a further $9.6 million was advanced by Brookfield and $22.7 million of interest accrued on the loan. Brookfield provided $32.3 million against this loan in its 1991 financial statements.

Accounts and other payables

Accounts payable and other claims declined during the year by $4.5 million to $106.4 million. These liabilities rank junior to secured property debts of $37.4 million and $248.2 million of secured advances by Brookfield, and rank senior to the Company's subordinated debentureholders. Details are as follows:

($ 000's)	**1991**	1990
Liabilities of BF Realty	**$ 49,607**	$ 49,718
Liabilities of wholly owned subsidiaries guaranteed or supported by BF Realty	**42,308**	42,599
Liabilities of wholly owned subsidiaries without recourse to BF Realty	**14,445**	18,577
	$106,360	$110,894

The Company expects to settle its remaining creditor claims for less than the amounts provided through negotiated settlements, successful challenges to the claims, or the planned financial restructuring. Any reductions will be credited to income when settled and used to decrease the shareholders' deficit.

Subordinated debentures

In December 1990, the Company 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, the Company for the same reason deferred payment of interest on its 10 ¾% subordinated debentures. The increase in 1991 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 the Company's total liabilities.

Capital Resources and Liquidity

A summary of the Company's statement of changes in financial position, segmenting BF Realty and Brookfield and their respective subsidiaries, is as follows:

			Consolidated[1]	
($ 000's)	BF Realty	Brookfield	**1991**	1990
Cash Flow from Operations	$ 61,092	$ 177,058	**$ 260,908**	$ 283,726
Cash Provided from Financings	(52,745)	240,773	**165,270**	247,424
	8,347	417,831	**426,178**	531,150
Cash Used For Investment:				
Rental properties	(1,467)	(360,812)	**(362,279)**	(455,722)
Properties held for sale or restructuring	(15,186)	(64,017)	**(79,203)**	(73,635)
	(16,653)	(424,829)	**(441,482)**	(529,357)
Cash and Term Deposits	$ (8,306)	$ (6,998)	**$ (15,304)**	$ 1,793

(1) A consolidating adjustment has been made in 1991 to reflect a $32,302,000 provision made by Brookfield against its advances to BF Realty.

Brookfield's annual report provides an analysis of its capital resources and liquidity.

BF Realty recovered $90 million through sales of properties, including Town Square and Catalina Island condominiums. Realizations from mortgages and notes receivable generated a further $2 million. These amounts were offset by operating cash flow deficiencies and accounts payable and other settlements amounting to $31 million, leaving the net cash generated from operating activities at $61 million.

Property sales required $96 million of property and other related debt to be settled from the proceeds of asset sales. A portion of the funds required to repay these debts was provided by Brookfield. In addition, $16.6 million was required to complete the development of properties held for sale, principally the Catalina Island condominiums.

The net result of the year's operating and financing activities was an $8.3 million reduction in the cash and term deposits previously set aside by BF Realty to secure its performance under specific financial obligations.

Brookfield continues to finance BF Realty's administrative costs. The Company 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 preferred shares, until a plan to restructure its liabilities and share capital receives the requisite approvals. Further details on the proposed financial restructuring are provided below.

Financial Restructuring Update

A committee of Independent Members of the Board of Directors was formed in June 1990 to review and to provide recommendations regarding the terms and conditions of a previously announced common share rights issue by Brookfield. The Independent Committee was authorized to engage such advisors as it considered necessary to carry out properly its responsibilities. The Independent Committee concluded in June 1991 that it was an inopportune time to effect the rights issue to public securityholders. The Committee drew attention to the difficulties in establishing an overall equity value attributable to Brookfield due to the uncertainties prevailing in the North

American real estate markets and the difficulties inherent in valuing a number of Brookfield's development properties, particularly those which were either under construction or where substantial leasing had yet to be completed. The Committee also expressed reservations about the ability of the Company to carry out its proposed rights issue at that time on any basis that would result in reasonable value to the public securityholders who participated or that would have any reasonable prospect of obtaining a meaningful level of public participation.

Taking into consideration these factors, the Independent Committee recommended that the Board of Directors seek an agreement with BCE and Carena to extend the maturity of their secured capital loans thereby permitting the rights offering and related equity conversion of the BCE and Carena loans to be deferred. The Independent Committee also recommended that BF Realty seek a delay in the claims of other securityholders. Although the Committee recognized there was no assurance that values would be restored during this deferral period, it felt strongly that the possibility of realizing greater value for BF Realty's investment in Brookfield should be preserved to the extent possible.

Pursuant to this recommendation of the Independent Committee, an agreement was reached with BCE and Carena to defer the maturity of their loans until April 30, 1993 in contemplation of a rights offering and related equity conversion to occur during the first quarter of 1993, based on values prevailing as at December 31, 1992. If the rights offering is not completed on or prior to April 30, 1993, the credit facility becomes due. It is a condition of the credit facility that BCE and Carena are satisfied that Brookfield's project lenders and commercial banks support Brookfield and that BF Realty's creditors will continue to defer the enforcement on any claims during this period. If the creditors of BF Realty do not abide by the conditions of the deferral arrangements to BCE's and Carena's satisfaction, BCE and Carena are entitled to take such proceedings as they consider appropriate to protect their secured capital loans to Brookfield which may include the commencement of realization or other enforcement proceedings. Although the trustee for the Company's subordinated debentureholders has not complied with the conditions of the deferral arrangements, BCE and Carena have for the time being, deferred taking action to protect their secured capital loans to Brookfield. BCE and Carena have stated that should they initiate proceedings to protect their secured capital loans, they intend to work with Brookfield with a view to safeguarding the interests of Brookfield's commercial banks and project lenders as well as Brookfield's trade creditors, but BF Realty's unsecured creditors would undoubtedly suffer significant losses and there would be no recovery for BF Realty's debentureholders and shareholders.

Although it was recognized that losses would continue to be recorded during the deferral period, BF Realty's Board of Directors concluded that the deferral arrangements were in the best interests of BF Realty's creditors and shareholders and encouraged all parties to abide by its conditions. It was hoped that in doing so, BF Realty's unsecured creditors and public securityholders would have the opportunity to participate in any recovery of real estate values during this period.

Business Outlook

The prospects for BF Realty's principal operating subsidiary, Brookfield, are positive with its main operating challenge being the leasing of its development projects. Brookfield's management is confident that the prime locations and high quality of its projects and the commitment of its people will facilitate the leasing of its development projects in the increasingly discriminating property markets.

Unfortunately Brookfield's many accomplishments over the past two years have been against the backdrop of deteriorating real estate markets, and time will be required to enhance values. This objective will not be achieved without a broad based recovery in real estate values and the co-operation of all of BF Realty's creditors. Without a recovery in real estate values and the co-operation of the Company's creditors, there will be no recovery for BF Realty's debentureholders and shareholders, and substantial losses for BF Realty's unsecured creditors.

Management believes the value of the real estate properties held by BF Realty currently does not exceed the related secured property debts and thus there are minimal asset values in BF Realty.

Brookfield's property operations have been stabilized, its development and asset disposition programs are well advanced, and project restructurings are substantially completed. Brookfield's liabilities and amounts owing on its preferred shares however, exceed the book value of its assets. Given current market conditions, it appears unlikely that BF Realty's investment in Brookfield's common shares have much value. Under these circumstances, BF Realty is unlikely to retain a meaningful interest in Brookfield after the proposed rights offering and related equity conversion of Brookfield's secured capital loans.

The Company's tax loss carry-forward position may provide an opportunity to generate value for BF Realty's creditors. The financial uncertainty surrounding BF Realty as a result of the actions taken by the trustee for the Company's subordinated debentures and other creditors, makes it difficult to attribute value to these losses at this time. BF Realty's residual value could also be enhanced if Brookfield common share purchase warrants, or some other alternative form of participation, is granted to BF Realty at the time the secured capital loans are converted into common shares of Brookfield. This will require the concurrence of BCE and Carena.

Management Report to the Shareholders

The consolidated financial statements of BF Realty Holdings Limited have been prepared by management of the Company in accordance with generally accepted accounting principles appropriate for the real estate industry.

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

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

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

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of BF Realty Holdings Limited as at December 31, 1991 and 1990, and the consolidated statements of operations, deficit, cash flow (deficiency) from operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and 1990, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
May 11, 1992

DELOITTE & TOUCHE
Chartered Accountants

Consolidated Balance Sheet

(A balance sheet accounting for Brookfield Development Corporation on an equity basis is provided in Note 21)

As at December 31	Note Reference	1991	1990
		(in thousands of dollars)	
Assets			
Properties:			
Rental	4,17	**$1,867,273**	$1,682,910
Held for sale or restructuring	5,17	**377,947**	465,355
		2,245,220	2,148,265
Mortgages and notes receivable	6	**193,734**	204,149
Cash and term deposits	7	**41,000**	56,304
Amounts receivable		**16,806**	13,748
Other assets		**3,085**	8,256
		$2,499,845	$2,430,722
Liabilities			
Debt on properties:	8		
Rental		**$1,140,181**	$1,123,019
Held for sale or restructuring		**96,443**	156,176
		1,236,624	1,279,195
Secured bank indebtedness	8	**154,796**	173,846
Secured capital loans of subsidiary	9	**783,480**	617,054
Accounts and other payables	10	**265,208**	283,085
Subordinated debentures	11	**141,354**	130,590
		2,581,462	2,483,770
Preference Shares of Subsidiaries	12	**285,122**	285,122
Preference Shares	14	**106,859**	106,859
Common Shareholders' Deficiency	14	**(473,598)**	(445,029)
		$2,499,845	$2,430,722

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

Approved by the Directors:

Lawrence H. Herber

W. Chippindale

Lawrence H. Herber, Director

Warren Chippindale, Director

Consolidated Statement of Operations

For the years ended December 31	Note Reference	1991	1990
		(in thousands of dollars)	
Revenue			
Rental		**$ 106,575**	$ 148,038
Net income from real estate sales		**—**	7,556
Interest and other		**16,062**	35,719
Total revenue		**122,637**	191,313
Expenses			
Rental operating costs		**59,000**	79,886
Interest	15	**62,187**	134,757
General, administrative and reorganization costs		**5,959**	13,059
Depreciation and amortization		**10,259**	13,809
Total expenses		**137,405**	241,511
Net Operating Loss		**(14,768)**	(50,198)
Provision for income taxes	16	**—**	(2,977)
Preference share dividends of subsidiaries		**(13,568)**	(22,522)
Net Loss Before Undernoted Items		**(28,336)**	(75,697)
Provision for diminution in property values	17	**—**	(208,564)
Foreign currency translation gain		**—**	21,582
Net Loss		**$ (28,336)**	$(262,679)

Loss per Common Share			
Basic and fully diluted		**$(0.23)**	$(1.64)

Consolidated Statement of Deficit

For the years ended December 31	1991	1990
	(in thousands of dollars)	
Deficit, beginning of year	**\$(917,267)**	\$(654,588)
Net loss	**(28,336)**	(262,679)
Deficit, End of Year	**\$(945,603)**	\$(917,267)

Consolidated Statement of Cash Flow (Deficiency) From Operations

For the years ended December 31	1991	1990
	(in thousands of dollars)	
Net operating loss	**\$ (14,768)**	\$ (50,198)
Items not requiring a current outlay of cash:		
Depreciation and amortization	**10,259**	13,809
Deferred financing costs	**—**	3,892
Cash Flow (Deficiency) From Operations	**\$ (4,509)**	\$ (32,497)
Cash Flow (Deficiency) per Common Share		
Basic and fully diluted	**\$(0.09)**	\$(0.25)

Consolidated Statement of Changes in Financial Position

For the years ended December 31	**1991**	1990
	(in thousands of dollars)	
INFLOWS (OUTFLOWS)		
Operational Activities		
Deficiency from operations	**$ (4,509)**	$ (32,497)
Recovery of real estate costs through sales of properties	**273,168**	173,987
Mortgages and notes receivable and other assets	**15,141**	33,519
Accounts payable, accruals and other	**(22,892)**	108,717
Cash Flow from Operational Activities	**260,908**	283,726
Financing Activities		
Secured capital loans of subsidiary	**166,426**	413,408
Subordinated debentures	**10,764**	4,466
Redemption of preference shares of subsidiaries	**—**	(101,122)
Proceeds from preference shares of subsidiaries	**—**	131,122
Common shares	**41**	—
Debt on properties:		
Funding net of repayments	**154,743**	(22,557)
Discharged through sales	**(136,412)**	(153,278)
Secured bank indebtedness	**(18,711)**	6,244
Dividends and dividends of subsidiaries	**(13,568)**	(22,522)
Translation adjustment	**1,987**	(8,337)
Cash Provided From Financing Activities	**165,270**	247,424
Investment Activities		
Cash used to develop properties:		
Rental	**(362,279)**	(455,722)
Held for sale or restructuring	**(79,203)**	(73,635)
Cash Applied to Investment Activities	**(441,482)**	(529,357)
(Decrease) Increase in Cash and Term Deposits	**$ (15,304)**	$ 1,793

Notes to Consolidated Financial Statements

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 is a real estate holding company conducting development, management and property investment activities through subsidiaries, including its principal operating subsidiary, Brookfield Development Corporation (Brookfield) and its subsidiaries.

2. Continuation of the Business

The financial statements of 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.

In view of the financial difficulties experienced in recent years, the Company has announced that it will make a proposal to its creditors and shareholders to restructure its affairs prior to the end of the first quarter of 1993. The restructuring is expected to include a common share rights offering of Brookfield that would be made to the holders of BF Realty's public securities and a related conversion of secured capital loans made by BCE Inc. (BCE) and Carena Developments Limited (Carena) to Brookfield into common shares of Brookfield in support of this financial restructuring, subject to the receipt of all requisite regulatory and other approvals (See also Note 9). The rights offering and related equity conversion of the secured capital loans are to be based on values as at December 31, 1992 and may result in Brookfield becoming a public company. Depending on real estate values at the time, Brookfield may cease to be a subsidiary of BF Realty. The restructuring of BF Realty's liabilities and share capital would then be based primarily upon the value of BF Realty's residual investment in Brookfield.

The Company has entered into an agreement with BCE and Carena under which the maturity date of Brookfield's secured capital loans has been extended from July 15, 1991 to April 30, 1993 in contemplation of the rights offering and related equity conversion referred to above. This extension agreement with BCE and Carena is conditional upon receipt of evidence satisfactory to BCE and Carena that Brookfield's project lenders and commercial banks will continue to support Brookfield and upon the Company's other creditors similarly deferring the enforcement of any claims they may have involving the Company during the deferral period. The Company's ability to continue operations as a going concern is dependent upon the successful completion of these restructurings and compliance with the deferral arrangements accepted by BCE and Carena. If the deferral arrangements are not abided by, BCE and Carena will be entitled to take such proceedings as they consider appropriate to protect their secured capital loans to Brookfield, which might include the commencement of realization or other enforcement proceedings.

Notwithstanding that certain creditors, including the subordinated debentureholders of the Company, have initiated actions against Brookfield, BCE and Carena have not enforced their rights nor have they waived them. They have, however, stated that should they commence proceedings they intend to work with Brookfield with a view to safeguarding the interests of Brookfield's commercial banks and project lenders as well as its trade creditors.

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 shareholders' deficiency.

3. Summary of Significant Accounting Policies

A. *General*

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

B. *Principles of Consolidation*

The consolidated financial statements of the Company include the accounts of all companies in which BF Realty has effective control, including its principal subsidiary, Brookfield (See also Note 21).

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. *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 properties carrying value. 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 and as a result of not discounting the cash flow, the carrying value may be greater than the current market value. These projections take into account the specific business plan for each property and the most probable set of economic conditions anticipated to prevail in the market area.

(ii) Reserves 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.

D. *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. Net realizable value has been determined on the basis of management's assumptions and projections about future economic conditions and events. Material differences in values may arise if actual results are not consistent with these assumptions.

(ii) 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.

E. *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.

F. *Participating Mortgages*
The cash method is used to account for participating mortgages.

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

H. *Per Share Calculations*
Basic loss and cash flow (deficiency) 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. Rental Properties
(See also Note 17)

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

	1991	1990
	(in thousands of dollars)	
Income producing	**$ 667,495**	$ 800,260
Accumulated depreciation	**17,359**	23,318
	650,136	776,942
Under development	**1,109,744**	811,165
Held for future development	**107,393**	94,803
	$1,867,273	$1,682,910

5. Properties Held for Sale or Restructuring
(See also Note 17)

The Company's 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.

	1991	1990
	(in thousands of dollars)	
Residential lands under development for subsequent sale	**$ 214,958**	$ 186,966
Other properties held for sale or restructuring	**162,989**	278,389
	$ 377,947	$ 465,355

6. Mortgages and Notes Receivable

Mortgages and notes receivable yield a weighted average interest rate of 8.7% (1990 – 9.9%) per annum and mature as follows:

	(in thousands of dollars)
Years ending December 31, 1992	$ 144,860
1993	10,940
1994	4,064
1995	1,479
1996	300
Subsequent to 1996	32,091
	$ 193,734

7. Cash and Term Deposits

Included in cash and term deposits are amounts totalling $40,877,000 (1990 – $46,083,000) which can be applied only to specific liabilities, or become available to the Company in the future.

8. Debt on Properties and Other Secured Bank Indebtedness
(See also Notes 9 and 13)

	1991					1990
	Fixed Rate Financing		**Variable Rate Financing**			
	Limited Recourse	**Recourse**	**Limited Recourse**	**Recourse**	**Total**	Total
	(in thousands of dollars)					
Debt on properties:						
Rental	**$645,961**	**$409,030**	**$31,185**	**$ 54,005**	**$1,140,181**	$1,123,019
Held for sale or restructuring	**—**	**9,934**	**3,500**	**83,009**	**96,443**	156,176
	645,961	**418,964**	**34,685**	**137,014**	**1,236,624**	1,279,195
Secured bank indebtedness:						
Mortgages and notes receivable	**3,253**	**—**	**—**	**12,066**	**15,319**	38,635
Revolving credit facility	**—**	**—**	**—**	**139,477**	**139,477**	135,211
	$649,214	**$418,964**	**$34,685**	**$288,557**	**$1,391,420**	$1,453,041

Fixed rate financing bears interest, including participation features, at a weighted average rate of 7.8% (1990 – 9.7%) per annum after giving effect to money market instruments used to fix interest rates. The Company has mortgages outstanding totalling $454,977,000 (1990 – $205,948,000) 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 the Company's debt is as follows:

	Fixed Rate Financing	Variable Rate Financing	Total
	(in thousands of dollars)		
Years ending December 31, 1992	$ 27,573	$ 55,655	$ 83,228
1993	12,876	212,230	225,106
1994	3,750	10,172	13,922
1995	90,785	—	90,785
1996	9,221	45,185	54,406
Subsequent to 1996	923,973	—	923,973
	$1,068,178	$323,242	$1,391,420

The Company's secured revolving credit facility has an available limit of $200 million and bears interest at floating rates. Borrowings are secured by charges on substantially all of the Company's assets and rank senior to the secured capital loans established for Brookfield.

9. Secured Capital Loans of Subsidiary
(See also Note 22)

BCE and Carena, through a company controlled by them, have established a secured capital loan facility for Brookfield which amounted to $783,480,000, including interest advances, at December 31, 1991 (1990 – $617,054,000). Advances under this facility are secured by charges on substantially all of the Company's assets, including a guarantee of the Company and a specific pledge of all the outstanding common shares of Brookfield. The credit facility bears interest at variable rates with the interest rate fluctuating with market rates. In addition, $30,000,000 of the facility has been drawn down through the issuance of Class C Preference Shares of Brookfield.

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

Notwithstanding that certain creditors, including the subordinated debentureholders of the Company, have initiated actions against Brookfield, BCE and Carena have not enforced their rights nor have they waived them. They have, however, stated that should they commence proceedings they intend to work with Brookfield with a view to safeguarding the interests of Brookfield's commercial banks and project lenders, as well as its trade creditors.

The agreement providing for the extension of the BCE and Carena credit facility provides for all advances to be applied to the purchase of common shares of Brookfield in support of a rights offering to be concluded during the first quarter of 1993, subject to the receipt of all requisite regulatory and other approvals. It is expected that the rights offering referred to above, will be priced at an appropriate discount to the market value of Brookfield's assets to ensure a meaningful level of public participation in the offering. If the rights offering is not completed on or prior to April 30, 1993, the credit facility becomes due.

10. Accounts and Other Payables

	1991	1990
	(in thousands of dollars)	
Trade payables and accrued liabilities	**$ 96,667**	$ 97,051
Construction accruals and holdbacks	**40,689**	56,342
Notes payable	**64,529**	64,274
Accrued interest on project debt and other secured liabilities	**8,475**	8,822
Costs to complete properties sold	**29,472**	21,648
Deferred income and deposits	**25,376**	34,948
	$265,208	$283,085

11. Subordinated Debentures
(See also Note 21)

	1991	1990
	(in thousands of dollars)	
10.75% Subordinated Debentures	**$ 26,089**	$ 26,130
8% Subordinated Debentures	**99,994**	99,994
	126,083	126,124
Accrued and unpaid interest	**15,271**	4,466
	$141,354	$130,590

On December 31, 1990 the Company deferred payments on the 8% subordinated debentures and on April 30, 1991, deferred 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. It is a condition of the deferral arrangements with respect to the BCE and Carena secured credit facility that this and other material litigation be deferred during the deferral period, failing which BCE and Carena will be entitled to take such proceedings as they consider appropriate to protect their secured loans, which may include the commencement of realization or other proceedings. 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 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 December 31, 1991 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

Issued and Outstanding		1991	1990
		(in thousands of dollars)	
	Brookfield Development Corporation		
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
	Brookfield Capital I Corporation		
2,000,000	7.25% Preference Shares	**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
		$285,122	$285,122

The following subsidiaries of the Company have issued preference shares:

A. *Brookfield Development Corporation*

(i) Class C Preference Shares, Series 1:

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

The shares are redeemable, in whole or in part, at the option of Brookfield at any time after five years and one business day from the date of issue of the shares. The shares are retractable at the option of the holder at $25 plus declared and unpaid dividends upon the first to occur of:

(a) five years and one business day from the date of issue of all or any of the shares; or

(b) the Board of Directors passing a resolution approving the issue of common shares of Brookfield in connection with a rights offering made to shareholders or other investors in BF Realty or with any other form of public offering of Brookfield common shares.

Dividends of $3,936,000 were accrued and unpaid as at December 31, 1991. (1990 – $1,819,000).

(ii) Class D Preference Shares, Series 1:
Cash dividends are payable quarterly at a rate equivalent to 70% of the prime lending rate charged by a Canadian chartered bank.

The shares are redeemable, in whole or in part, at the option of Brookfield at any time and are retractable at the option of the holder, BCE, at $25 plus accrued and unpaid dividends on or after August 31, 2000, or if two dividend payments are in arrears or upon the occurrence of certain other events.

Dividends of $7,070,000 were in arrears as at December 31, 1991 (1990 – Nil) (See also Note 22 D).

B. *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 the company, in whole or in part, after December 31, 1991 at $25.50 per share declining to $25 per share after March 31, 1993 plus accrued dividends.

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

A subsidiary of the Company is obligated to purchase the shares in the event that dividend or redemption payments on the shares are not made or upon the occurrence of certain other events. This obligation is secured by a bankers' acceptance issued by a Canadian chartered bank, which in turn is secured by a property owned by the Company. The Company 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.

C. *BCE Place Finance Corporation:*
7.375% Cumulative Redeemable Retractable Preference Shares, Series 1 and 7.75% Cumulative Redeemable Retractable Preference Shares, Series 2 have fixed cumulative preferential cash dividends of $1.84375 and $1.9375 per share per annum respectively, payable quarterly.

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

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

The Company 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 the Company.

13. Contingencies and Commitments

(See also Note 8)

A. The Company is contingently liable for obligations of certain joint ventures and partnerships amounting to $150,000,000 (1990 – $159,500,000). However, the available assets of each joint venture or partnership are, in management's opinion, adequate to satisfy the obligations.

B. The Company has entered into lease agreements for terms of up to 96 years (1990 – 97 years). The maximum annual rental payments required are $12,139,000 (1990 – $12,661,000), and in the aggregate they total $920,561,000 (1990 – $1,062,969,000).

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

1992	$11,901,000
1993	10,622,000
1994	10,789,000
1995	10,731,000
1996	10,699,000

C. The Company has estimated that costs of $364,000,000 (1990 – $754,300,000) are required to complete rental properties under development, a significant proportion of which relates to the tenant inducements and interest costs on project debt during lease up. Financing facilities have been arranged subject to leasing and cost to complete tests for the total estimated costs.

D. The estimated cost to complete properties held for sale or restructuring amounts to $67,000,000 (1990 – $199,700,000). These costs will be financed through the proceeds of sales of these properties or by drawing on financing commitments to be arranged.

E. 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' Deficiency

	Note Reference	1991	1990
		(in thousands of dollars)	
Preference shares	14 A	**$ 106,859**	$ 106,859
Common Shareholders' Deficiency			
Common shares	14 B	**$ 456,229**	$ 456,188
Warrants		—	33,372
Contributed surplus		**48,964**	15,592
Deficit		**(945,603)**	(917,267)
Foreign currency translation	14 C	**(33,188)**	(32,914)
		$(473,598)	$(445,029)

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 –		1991	1990
		(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**	$ 456,188

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.

Dividends of $2,212,000 on the Senior Series A, and $1,609,000 on the Senior Series B preference shares were in arrears as at December 31, 1991 (1990 – $1,144,000 and $832,000, respectively).

(ii) Class A Preference Shares:
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 March 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.

Dividends of $20,250,000 were in arrears as at December 31, 1991 (1990 – $12,150,000).

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

	1991		1990	
	Common Shares	**Amount**	Common Shares	Amount
Balance, beginning of year	**166,012,237**	**$456,188,000**	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**	166,012,237	$456,188,000

The Company has an employee option plan, under which, at December 31, 1991, options had been granted to officers and employees to purchase 25,000 common shares at a price of $1.47 per common share until November 3, 1992 and 195,000 common shares at a price of $3.00 per common share until December 15, 1996.

The Company has a key executive stock option plan, under which, at December 31, 1991, options had been granted to officers to purchase 330,000 common shares at a price of $3.00 per common share until December 15, 1996.

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

	1991	1990
	(in thousands of dollars)	
Balance, beginning of year	**$ (32,914)**	$ (29,119)
Translation adjustment for the year	**(274)**	(3,795)
Balance, end of year	**$ (33,188)**	$ (32,914)

15. Interest

	1991	1990
	(in thousands of dollars)	
Interest charges were incurred from:		
Debt on properties	**$121,846**	$157,025
Secured bank indebtedness	**13,048**	8,722
Secured capital loans of subsidiary	**61,369**	41,423
Other	**1,487**	1,976
	197,750	209,146
Less interest directly capitalized or allocated to:		
Rental properties under development and held for future development	**102,699**	59,863
Residential lands under development for subsequent sale and other properties held for sale or restructuring	**32,864**	14,526
	135,563	74,389
	$ 62,187	$134,757

16. Income Taxes

The Company and its subsidiaries have accumulated tax losses of approximately $500,000,000, which will expire between 1995 and 2006. The potential benefit of the use of these losses has not been reflected in the financial statements.

17. Provision for Diminution in Property Values

The following is a summary of the activity in the provision for diminution accounts.

	1991	1990
	(in thousands of dollars)	
Balance, beginning of year	**$521,380**	$568,145
Provision made during the year	—	208,564
	521,380	776,709
Less applied during the year:		
On sale of assets and properties restructured	**259,824**	255,329
Balance, end of year	**$261,556**	$521,380

18. Capitalized Costs

	1991	1990
	(in thousands of dollars)	
During the year the Company capitalized the following costs:		
Interest	**$135,563**	$ 74,389
Property taxes	**18,187**	9,836
General and administrative	**13,499**	11,590
Net operating income from properties under development and held for sale or restructuring	**(22,230)**	(9,232)
Current year costs recovered through sale of properties	**(13,444)**	(3,877)
	$131,575	$ 82,706
These costs were capitalized to properties as follows:		
Rental properties under development and held for future development	**$114,299**	$ 70,728
Residential lands under development for subsequent sale and other properties held for sale or restructuring	**17,276**	11,978
	$131,575	$ 82,706

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:

	1991	1990
	(in thousands of dollars)	
Assets	**$473,899**	$574,641
Liabilities	**240,777**	241,395
Revenue	**45,385**	26,417
Expenses	**44,037**	26,472

20. Segmented Information

By Property Type

	Real estate sales		Rental revenue		Total	
	1991	1990	**1991**	1990	**1991**	1990
			(in thousands of dollars)			
REVENUE						
Rental properties	**$ 118,639**	$ 96,934	**$106,575**	$140,270	**$ 225,214**	$ 237,204
Properties held for sale or restructuring	**154,529**	84,609	**—**	7,768	**154,529**	92,377
	$ 273,168	$ 181,543	**$106,575**	$148,038	**$ 379,743**	$ 329,581
OPERATING INCOME						
Rental Properties	**$ —**	$ —	**$ 47,575**	$ 64,184	**$ 47,575**	$ 64,184
Properties held for sale or restructuring	**—**	7,556	**—**	3,968	**—**	11,524
	$ —	$ 7,556	**$ 47,575**	$ 68,152	**47,575**	75,708
Unallocated corporate items, net					**(62,343)**	(125,906)
Net operating loss					**$ (14,768)**	$ (50,198)

By Country

	Real estate sales		Rental revenue		Total	
	1991	1990	**1991**	1990	**1991**	1990
			(in thousands of dollars)			
REVENUE						
Canada	**$ 58,764**	$ 66,996	**$ 3,083**	$ 13,988	**$ 61,847**	$ 80,984
United States	**214,404**	114,547	**103,492**	134,050	**317,896**	248,597
	$ 273,168	$ 181,543	**$106,575**	$148,038	**$ 379,743**	$ 329,581
OPERATING INCOME						
Canada	**$ —**	$ 4,402	**$ 1,802**	$ 7,968	**$ 1,802**	$ 12,370
United States	**—**	3,154	**45,773**	60,184	**45,773**	63,338
	$ —	$ 7,556	**$ 47,575**	$ 68,152	**47,575**	75,708
Unallocated corporate items, net					**(62,343)**	(125,906)
Net operating loss					**$ (14,768)**	$ (50,198)

	Real estate properties		Other assets		Total	
	1991	1990	**1991**	1990	**1991**	1990
			(in thousands of dollars)			
ASSETS						
Canada	**$ 882,616**	$ 685,734	**$120,931**	$ 53,515	**$1,003,547**	$ 739,249
United States	**1,362,604**	1,462,531	**133,694**	228,942	**1,496,298**	1,691,473
	$2,245,220	$2,148,265	**$254,625**	$282,457	**$2,499,845**	$2,430,722

21. Deconsolidated Information

The Company's financial position as at December 31, 1991, accounting for Brookfield and its subsidiaries on an equity basis, is as follows:

	BF Realty	Brookfield	Consolidating Adjustments	Consolidated
	(in thousands of dollars)			
ASSETS				
Properties:				
Rental	$ —	$1,867,273	$ —	$1,867,273
Held for sale or restructuring	**15,361**	362,586	—	377,947
	15,361	2,229,859	—	2,245,220
Mortgages and notes receivable	**967**	192,767	—	193,734
Cash and term deposits	**1,509**	39,491	—	41,000
Amounts receivable	**471**	16,335	—	16,806
Other assets	**79**	3,006	—	3,085
Secured loan to BF Realty(1)	—	215,937	(215,937)	—
Investment in Brookfield	**115,935**	—	(115,935)	—
	$ 134,322	$2,697,395	$(331,872)	$2,499,845
LIABILITIES				
Debt on properties:				
Rental	$ —	$1,140,181	$ —	$1,140,181
Held for sale or restructuring	**37,410**	59,033	—	96,443
	37,410	1,199,214	—	1,236,624
Secured bank indebtedness	—	154,796	—	154,796
Secured capital loans from BCE and Carena	—	783,480	—	783,480
Secured advances payable to Brookfield	**248,239**	—	(248,239)	—
Accounts and other payables	**106,360**	158,848	—	265,208
Subordinated debentures	**141,354**	—	—	141,354
PREFERENCE SHARES OF SUBSIDIARIES	—	154,000	131,122	285,122
PREFERENCE SHARES	**106,859**	131,122	(131,122)	106,859
COMMON SHAREHOLDERS' EQUITY (DEFICIENCY)(1)	**(505,900)**	115,935	(83,633)	(473,598)
	$ 134,322	$2,697,395	$(331,872)	$2,499,845

(1) Brookfield reflects its advances to BF Realty in its financial statements after a provision of $32,302,000 charged to income.

22. Related Party Transactions and Transactions with Carena Developments Limited

A. The Company is approximately 67% owned by BCE. BCE entered into an agreement with Carena whereby Carena undertook to provide management services to the Company. In the normal course of business, the Company leases space and enters into other contracts with BCE, Carena and their respective affiliated companies.

All transactions with related parties and with Carena (including parties related thereto) are conducted on terms and conditions comparable to those with third parties and are reviewed by the Independent Directors.

B. BCE and Carena, through a company controlled by them, have provided Brookfield with secured capital loans aggregating $783,480,000 (1990 – $617,054,000) (See also Note 9). The total interest incurred on this facility amounted to $61,369,000 in 1991 (1990 – $41,423,000). 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 $3,936,000 have been provided for on the Brookfield Class C Preference Shares as at December 31, 1991 (1990 – $1,819,000) (See also Note 12 A).

C. BCE holds $25,000,000 of the Company's 8% subordinated debentures.

D. At December 31, 1991 BCE held $101,122,000 of Class D Preference Shares of Brookfield. Dividends of $7,070,000 were in arrears as at December 31, 1991 (1990 – Nil) (See also Note 12 A).

Properties

OFFICE BUILDING	Ownership Interest	Total Rentable Area (sq. ft.)
Minneapolis		
Rand Tower	100%	175,000

RESIDENTIAL UNITS HELD FOR SALE		Units
Santa Catalina Island		
Hamilton Cove	100%	42

Board of Directors[3]

John Andrachuk [1]
President
Andra Associates
Toronto

Gordon E. Arnell
President and Chief Executive Officer
Brookfield Development Corporation
Toronto

Warren Chippindale [1]
Company Director
Formerly Chairman and
Chief Executive Partner
Coopers & Lybrand
Montreal

James G. Davies
Independent Businessman
Toronto

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

Lawrence H. Herber
President
BF Realty Holdings Limited
Toronto

John R. McCaig [2]
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Calgary

E.F. Anthony Merchant
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Merchant Law Group
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Edmonton

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Senior Vice President and Chief Financial Officer
Brookfield Development Corporation
Toronto

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

R. Thomas Stewart-Burgoyne
Independent Businessman
Toronto

(1) Member of Audit Committee
(2) Member of Independent Directors Committee
(3) As at December 31, 1991

Corporate Officers

Gordon E. Arnell
Chairman

Lawrence H. Herber
President

William J. Pringle
Senior Vice President and
Chief Financial Officer

William B. Seith
Senior Vice President

Daniel T. Gray
Vice President

Michael D. Peires
Controller

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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

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