BROOKFIELD PROPERTIES CORPORATION

ANNUAL INFORMATION FORM

MAY 20, 2003

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

Five Year Summary

Years ended at December 31 (audited)

US Millions, except per share information	**Pro Forma[1] 2002**	**2002**	2001	2000	1999	1998
Assets						
Commercial properties	**$5,661**	**$5,661**	$5,802	$6,368	$5,930	$5,977
Development properties	**944**	**944**	575	537	363	360
Receivables and other	**769**	**769**	847	1,017	1028	732
Cash and cash equivalents	**76**	**76**	195	201	214	131
Assets of Brookfield Homes Corporation	—	**879**	872	762	756	753
	$7,450	**$8,329**	$8,291	$8,885	$8,291	$7,953
Liabilities						
Commercial property debt	**$4,038**	**$4,038**	$4,376	$4,542	$4,139	$4,112
Commercial development property debt	**550**	**550**	230	160	—	—
Accounts payable and other liabilities	**429**	**429**	460	1,031	1,103	974
Liabilities of Brookfield Homes Corporation	—	**556**	583	549	482	445
Shareholders' interests						
Interests of others in properties	**84**	**84**	113	159	326	255
Preferred shares – subsidiaries and corporate	**579**	**579**	585	607	607	607
Convertible debentures	—	—	—	50	251	251
Common shares	**1,770**	**2,093**	1,944	1,787	1,383	1,309
	$7,450	**$8,329**	$8,291	$8,885	$8,291	$7,953
Revenue, funds from operations and net income from continuing operations						
Revenue		**$1,372**	$1,428	$1,369	$1,267	$1,148
Funds from operations (FFO) and gains		**374**	334	268	213	173
Net income		**236**	202	140	125	114
FFO and gains per common share – diluted		**$2.18**	$1.92	$1.56	$1.23	$0.98
FFO per common share prior to lease termination income and gains – diluted		**$1.87**	$1.63	$1.45	$1.12	$0.98
Net income per common share – basic		**$1.35**	$1.12	$0.77	$0.67	$0.61
– diluted		**$1.34**	$1.12	$0.76	$0.67	$0.61
Net income including discontinued operations		**280**	241	170	153	129
Dividends paid *(declared and paid in C$)*						
Class A preferred shares		**$0.1875**	$0.1875	$0.1875	$0.1875	$0.1875
Class AA, Series E preferred shares		**$0.7272**	$1.1009	$1.2549	$1.1282	$1.1616
Class AAA, Series A preferred shares		**$1.6521**	$2.25	$2.25	$2.25	$2.25
Class AAA, Series B preferred shares		**$1.6521**	$2.25	$2.25	$2.25	$2.25
Class AAA, Series C preferred shares		**$1.6457**	$2.00	$2.00	$2.00	$2.00
Class AAA, Series D preferred shares		**$2.00**	$2.00	$2.00	$2.00	$2.00
Class AAA, Series F preferred shares		**$0.3986**	—	—	—	—
Per common share[2]		**$0.40**	$0.33	$0.25	$0.21	$0.16

(1) Reflects distribution of Brookfield Homes Corporation, completed on January 6, 2003.

(2) Effective September 1, 2001, dividends declared in US$. The 2002 common share dividend excludes the distribution of Brookfield Homes Corporation.

Quarterly Revenue and Net Income from Continuing Operations

Three months ended (unaudited)

	2002				2001			
US Millions, except per share information	**Dec. 31**	**Sept. 30**	**June 30**	**Mar. 31**	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue	**$385**	**$318**	**$324**	**$345**	$350	$327	$385	$366
Funds from operations and gains	**81**	**100**	**81**	**112**	67	74	97	96
Net income	**50**	**64**	**50**	**72**	39	43	65	55
Net income per common share – diluted	**$0.29**	**$0.35**	**$0.28**	**$0.42**	$0.21	$0.23	$0.38	$0.30

Segmented Information

Years ended December 31 (audited)

	United States			Canada			Total		
US Millions	**2002**	2001	2000	**2002**	2001	2000	**2002**	2001	2000
Commercial property operations									
Rental revenues*	**$687**	$688	$701	**$256**	$319	$288	**$943**	$1,007	$989
Lease termination income and gains	—	25	19	**60**	30	—	**60**	55	19
Expenses	**240**	254	260	**103**	136	137	**343**	390	397
	447	459	460	**213**	213	151	**660**	672	611
Development and residential									
Revenues	**157**	181	147	**164**	143	169	**321**	324	316
Expenses	**156**	180	144	**143**	124	145	**299**	304	289
	1	1	3	**21**	19	24	**22**	20	27
Other revenues	**9**	17	13	**39**	25	32	**48**	42	45
Net operating income	**457**	477	476	**273**	257	207	**730**	734	683
Interest expense	**235**	250	255	**49**	78	69	**284**	328	324
Administrative and development	**18**	22	17	**24**	22	27	**42**	44	44
Interests of others in properties	**7**	5	16	**23**	23	31	**30**	28	47
Income before undernoted	**197**	200	188	**177**	134	80	**374**	334	268
Depreciation and amortization	**52**	48	44	**28**	28	22	**80**	76	66
Income before unallocated costs	**145**	152	144	**149**	106	58	**294**	258	202
Taxes and other non-cash items							**58**	56	62
Net income from continuing operations							**236**	202	140
Income from discontinued operations							**44**	39	30
Net income							**$280**	$241	$170
Assets									
Commercial properties	**$4,430**	$4,392	$4,526	**$1,231**	$1,410	$1,842	**$5,661**	$5,802	$6,368
Development properties	**711**	374	325	**233**	201	212	**944**	575	537
Receivables and other	**301**	428	669	**468**	419	348	**769**	847	1,017
Cash and cash equivalents	**72**	195	184	**4**	—	17	**76**	195	201
Assets of Brookfield Homes Corporation	**879**	872	762	**—**	—	—	**879**	872	762
	$6,393	$6,261	$6,466	**$1,936**	$2,030	$2,419	**$8,329**	$8,291	$8,885
(Dispositions) and acquisitions of real estate, net	**$ 2**	$ (97)	$ 42	**$ (116)**	$ (40)	$ 120	**$ (114)**	$ (137)	$ 162
Commercial property tenant improvements	**36**	24	74	**13**	26	23	**49**	50	97
Development and redevelopment investments	**195**	75	17	**11**	26	30	**206**	101	47
Capital expenditures	**7**	6	4	**9**	8	8	**16**	14	12

** During 2002, rental revenues from Merrill Lynch & Company Inc. accounted for 14% (2001 – 14%, 2000 – 15%) of consolidated revenue.*

ADDITIONAL INFORMATION

Additional information relating to Brookfield Properties Corporation, including information as to directors' and executive officers' remuneration and indebtedness, the principal holders of Brookfield's securities, options to purchase securities and interests of management and others in material transactions, is set out in pages 4 through 9 of Brookfield's Management Proxy Circular dated March 3, 2003 (the "Management Proxy Circular"). Additional financial information relating to Brookfield is also provided in the consolidated financial statements for the year ended December 31, 2002 set out in pages 37 through 57 of Brookfield's Annual Report for the year ended December 31, 2002 ("2002 Annual Report"). Brookfield's 2002 Annual Report also contains, in pages 17 through 35, the Management's Discussion and Analysis of Brookfield's financial condition and results of operations for the year ended December 31, 2002 (the "MD&A"), which is included here by reference.

Additional information relating to Brookfield will be provided to any person, upon request to the secretary of the Corporation as follows:

(a) when securities of Brookfield are in the course of a distribution pursuant to a short form prospectus, or when a preliminary short form prospectus has been filed in respect of a distribution of Brookfield's securities,
   - (i) one copy of this Annual Information Form ("AIF"), together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the AIF,
   - (ii) one copy of Brookfield's consolidated financial statements for the year ended December 31, 2002 together with the accompanying report of the auditor and one copy of any interim financial statements of Brookfield subsequent to the financial statements for the year ended December 31, 2002,
   - (iii) one copy of Brookfield's Management Proxy Circular dated March 3, 2003, and
   - (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any document referred to in (a)(i), (ii) and (iii) above, provided that Brookfield may require the payment of a reasonable charge if the request is made by a person who is not a security holder of Brookfield.

BROOKFIELD PROPERTIES CORPORATION

Brookfield owns, develops and manages premier North American office properties. The Brookfield portfolio comprises 50 commercial properties and development sites totaling 46 million square feet, including landmark properties such as the World Financial Center in New York and BCE Place in Toronto. Brookfield also manages over 130 million square feet of space. Brookfield is committed to building shareholder value by investing in quality assets and intensively managing each of its properties to increase cashflows and maximize return on capital.

Brookfield owns its assets directly and indirectly through partnerships and equity investments, including: (i) a 100% common share interest in Brookfield Properties Ltd. (formerly Brookfield Commercial Properties Ltd.), an Ontario commercial property investment company, which primarily owns large Class A office properties located in central business districts in Toronto, Denver and Minneapolis; (ii) a 98.5% interest in Brookfield Financial Properties, L.P. ("Brookfield Financial Properties"), a New York-based Delaware limited partnership which owns large Class A office properties, primarily in Lower and Midtown Manhattan and Boston; (iii) an 89% equity (representing 47% of the Canadian voting securities and 100% of the non-voting securities) interest in BPO Properties Ltd. (formerly Gentra Inc.), a Canadian public commercial real estate company that owns predominantly office properties in Canada.

The Corporation was formed under the *Canada Business Corporations Act* on September 5, 1978 to continue the company which was incorporated in 1924. The articles of the Corporation have been amended from time to time to change its capital structure and name, and on May 7, 1996, the articles of the Corporation were amended to change the name of the Corporation to Brookfield Properties Corporation. The Corporation's registered head office is P.O. Box 770, Suite 330, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3. However, the Corporation operates head offices in both New York and Toronto. Unless otherwise noted or the context otherwise indicates, references to the "Corporation" are to Brookfield Properties Corporation and its consolidated subsidiaries.

Brookfield prepares its annual audited consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which in some cases, differ in certain respects from US generally accepted accounting principles ("US GAAP"). For a discussion of these differences, together with a reconciliation of the Corporation's net income and shareholders' equity to US GAAP, see Note 17 of the notes to the consolidated financial statements of the Corporation. The Corporation prepares its consolidated financial statements in US dollars, and unless otherwise indicated, all financial data set forth in this AIF have been prepared in accordance with Canadian GAAP. In this AIF, all references to "US$" are to US dollars and "C$" are to Canadian dollars and all references to "$" are in US dollars unless otherwise stated. Unless otherwise indicated, the statistical and financial data contained in this AIF are presented as at December 31, 2002.

History and Current Developments

Brookfield Properties Corporation was incorporated in the early 1920's and has been active in various facets of the real estate business since the 1960's.

In 1990, a strategic decision was made to invest capital into the premier office property business in select, high-growth, supply-constrained markets in North America. This led to the acquisition of over 46 million square feet of high-quality office properties and office development sites predominantly in New York, Toronto and Boston.

The accumulation of these assets was completed through various corporate and property purchases since 1990, including three major portfolio acquisitions of approximately 10 million square feet respectively.

In 1990, Brookfield acquired 50% of a portfolio of office properties from BCE Inc. containing approximately 10 million square feet in Toronto, Denver and Minneapolis. In 1994, the interest in this portfolio was increased to 100%.

During 1994 and 1995, Brookfield issued $184 million of common equity and $109 million of preferred shares to Brascan Corporation to support the acquisition and refinancing of the Corporation's real estate interests.

On November 21, 1996, Brookfield completed the acquisition of a 46% interest in Brookfield Financial Properties (formerly World Financial Properties, L.P.), one of New York's largest office property landlords. World Financial Properties owned 10 million square feet of Class A office space in New York and Boston, including interests in three of the four towers of the World Financial Center, One Liberty Plaza, and 245 Park Avenue in Manhattan and 53 State Street in Boston.

In February 1997, Brookfield completed a $442 million convertible debentures and equity offering of 230,770 units consisting of an aggregate of $221 million 6% convertible unsecured subordinated debentures and 23,077,000 common shares at a price of $9.59 per share, represented by installment receipts due and collected February 14, 1998.

In April 1997, Brookfield acquired from an affiliate of the Canadian Imperial Bank of Commerce ("CIBC") and Dragon Holdings Limited a further 24% interest in Brookfield Financial Properties for approximately $145 million in cash and the issuance of 2.9 million warrants of the Corporation. Each warrant entitles the holder to purchase one common share of the Corporation at $9.43 per common share with a term of five years from the date of their issue. Following the acquisition, Brookfield owned a 70% interest in Brookfield Financial Properties.

On May 8, 1997, Brookfield completed an amalgamation transaction with Brookfield Homes Corporation ("Brookfield Homes") in which shareholders of Brookfield Homes received one common share of the Corporation for each 1.5 common shares of Brookfield Homes held. Prior to the amalgamation, public shareholders owned approximately 4% of the total shares outstanding in Brookfield Homes. On the amalgamation, the Corporation issued 784,435 additional common shares of the Corporation.

In May 1997, Brookfield completed a $217 million equity offering of 19,672,132 common shares at a price of $11.05 per share, represented by installment receipts due and collected on February 14, 1998.

In August 1997, Brookfield completed a $290 million equity offering of 21,052,632 common shares at a price of $13.80 per share.

On September 30, 1997, Brookfield purchased 14,582,252 common shares of BPO Properties Ltd. ("BPO Properties") for an aggregate purchase price of $190 million. The purchase price was satisfied by delivery of $127 million in cash and 4,610,773 common shares of the Corporation. On completion of the transaction, Brookfield held approximately 43% of the outstanding common shares of BPO Properties. On September 30, 1997, Brookfield also entered into an agreement to purchase $36 million of Series R preferred shares of BPO Properties. Subsequently, the Series R preferred shares were converted into common shares of BPO Properties on October 15, 1997, increasing Brookfield's ownership to 45%. BPO Properties is Brookfield's Canadian commercial property operating company and owns approximately 14 million square feet of office properties.

In June 1998, Brookfield increased its interest in Brookfield Financial Properties to 89% by purchasing from an affiliate of Citicorp Real Estate Inc. ("Citibank") a 19% equity interest. The cost of the acquisition was

$167 million. As partial consideration for the acquisition, Brookfield issued a $50 million 6% unsecured debenture convertible into 2,622,100 common shares of the Corporation.

In addition to acquisitions of the Corporation's own shares, Brookfield increased its interest in its subsidiaries through capital repurchases undertaken by BPO Properties and Carma Corporation ("Carma"). During 1999, Brookfield's subsidiary, BPO Properties, acquired 5.8 million of its own common shares at below net asset value for a total of $57 million, thereby increasing Brookfield's equity interest to 52%. Subsequent to December 31, 1999, a further 4 million common shares of BPO Properties were repurchased by BPO Properties for total cost of $40 million, thereby increasing Brookfield's equity interest in BPO Properties to 59%, 47% on a voting basis. On May 13, 1999, the Corporation also purchased 1,000,000 common shares of Carma. This purchase increased Brookfield's equity interest in Carma to 35,395,499 common shares or approximately 82% of Carma's issued and outstanding common shares.

During 2000, Brookfield continued the consolidation of its subsidiaries through both normal course issuer bids and tender offers for the shares of Carma and BPO Properties not already owned by Brookfield. In September 2000, Carma was privatized through the issuance of 1.9 million common shares and the payment of $1 million in cash. Also in September 2000, the effective ownership of BPO Properties was increased to 85% through the issuance of 5.3 million common shares and the payment of $5 million in cash. Brookfield subsequently acquired an additional 2% of BPO Properties through capital repurchases, bringing its equity ownership interest in BPO Properties to 87% (47% on a voting basis).

On April 26, 2000, Brookfield announced that its New York-based subsidiary, Brookfield Financial Properties, formed a strategic office property alliance with Deutsche Grundbesitz Management GmbH, a 100% indirectly owned subsidiary of Deutsche Bank AG, a multi-national financial services company. Deutsche Grundbesitz Management GmbH agreed to acquire a 49% interest in Brookfield's two landmark office properties in Boston. Upon closing on April 2, 2001, the total proceeds of the transaction were $337 million, $168 million of cash for the equity component and the assumption of $169 million of property level debt by the purchaser.

In June 2000, $201 million of the Corporation's 6% subordinated convertible debentures were converted by the holders of those debentures into 19,986,682 common shares in accordance with the terms of the trust indenture governing the debentures.

In June 2000, Brookfield acquired, through BPO Properties, a western Canadian office portfolio, consisting of four office towers in Calgary and Vancouver. These properties, formerly part of the TrizecHahn portfolio, comprise a total of 3.5 million square feet of prime office, retail and parking space. The two projects include the flagship Bankers Hall East and West Towers and the Royal Bank Building in downtown Calgary as well as the Royal Centre in downtown Vancouver. These properties include a high-quality roster of tenants such as RBC Financial Group, CIBC, Talisman Energy, Canadian Natural Resources and Bennett Jones. They also have net effective rents that are below market, providing Brookfield with significant upside potential as leases rollover.

In June 2000, Brookfield acquired a development site in Midtown Manhattan at 300 Madison Avenue for $150 million. Brookfield announced in March 2001 that it had signed a 30-year lease with CIBC World Markets for 100% of the 1.2 million square foot office tower for its US headquarters, to be completed in late 2003.

In August 2000, Brookfield renewed a normal course issuer bid under which 1,586,300 shares were acquired for cancellation at an average price of $12.50 per share in 2000.

In October 2000, Brookfield completed a secondary offering of 8 million shares held by the CIBC at $14.50 per share.

On January 16, 2001, Brookfield announced that Lehman Brothers Inc. signed a 20-year lease for 460,000 square feet at One World Financial Center in Lower Manhattan. The agreement covers the entire eighth floor, as well as floors 19 to 21 and 30 to 40 in the 40-storey office tower. In aggregate, along with other leasing commitments, Lehman is committed to 717,000 square feet at One World Financial Center.

On January 31, 2001, Brookfield announced that it completed a $432 million refinancing of its 2.2 million square foot One Liberty Plaza property in Lower Manhattan. The investment-grade financing, recourse only to the property, has a term of 10 years and a fixed rate coupon of 6.75%. The financing was underwritten by Goldman, Sachs & Co. and Credit Suisse First Boston and was placed with investors in the single asset CMBS securitization market. The financing followed the signing in mid-2000 of approximately 630,000 square feet of new leases with Goldman, Sachs & Co. and the National Association of Securities Dealers Inc. ("NASD"). A portion of the funds was allocated for the extinguishment of debt currently on the property, and the balance was utilized for general corporate purposes.

On February 5, 2001, Brookfield announced that it completed a $500 million refinancing of its 245 Park Avenue property in New York. The investment-grade financing, recourse only to the property, has a term of 10 years and a fixed rate coupon of 6.65%. The financing was underwritten by JP Morgan Chase and Salomon Smith Barney and placed with investors in the single asset CMBS securitization market. The financing follows the signing in November 2000 of JP Morgan Chase and Bear Stearns to approximately 800,000 square feet of new 20-year leases at 245 Park Avenue, as well as a complete renovation of the lobby, elevators and plaza. A portion of the funds were utilized by the Corporation to extinguish debt currently on the property, and the balance was utilized for general corporate purposes. 245 Park Avenue is a 1.7 million square foot office tower located in Midtown Manhattan immediately adjacent to Grand Central Station.

On February 13, 2001, Brookfield acquired a 50% joint venture interest in the Bay-Adelaide development site in downtown Toronto for an investment of $40 million or $37 per buildable square foot. Canapen (Bay-Adelaide) Limited, a subsidiary of the CN Pension Trust Funds, currently holds the other 50% interest in the project. The Corporation, in addition to its 50% investment interest, will be responsible for the development, leasing and ongoing management of the project. The Bay-Adelaide site consists of two blocks of land in Toronto's downtown financial core, bounded by Richmond, Bay, Adelaide and Yonge Streets. The project currently includes a 1,100 car below-grade parking garage, construction completed to grade including all foundation work, and plans and permits for at least a one million square foot premier office tower.

In March 2001, Brookfield completed a secondary offering of 4,610,773 million shares held by Brascan Financial Corporation (formerly Trilon Financial Corporation) at $17 per share. The secondary offering of shares by Brascan Financial was sold to a syndicate of investment dealers.

On May 30, 2001, Brookfield acquired a further 5.4% of its New York and Boston assets owned through Brookfield Financial Properties from Citibank for a total cost of $202 million, $60 million of cash and the assumption of $142 million of long-term non-recourse property debt. This transaction brought the Corporation's interest in Brookfield Financial Properties to approximately 95%.

On July 23, 2001, Brookfield completed a refinancing of Fifth Avenue Place in Calgary and also sold a 50% interest in this property. A non-recourse first mortgage for $106 million was placed on the property and a 50% interest was sold to a Canadian institutional investor based on a gross value of $178 million. Net cash proceeds to Brookfield, after repayment of the current first mortgage, were $80 million. Brookfield continues to own the remaining 50% interest and manages the property. Fifth Avenue Place is a 1.7 million square foot premier office complex in Calgary, consisting of two office towers. The complex is owned through BPO Properties.

In August 2001, the holder of $50 million of convertible debentures issued by the Corporation tendered its securities for conversion into 2.6 million common shares of the Corporation. Warrants to purchase 2.5 million common shares of the Corporation were also exercised in August 2001 for $25 million.

On September 11, 2001, Brookfield owned eight million square feet of space in four office towers surrounding the World Trade Center site – One Liberty Plaza and One, Two and Four World Financial Center. The physical damage sustained by these properties was mainly cosmetic as a result of the attack on and subsequent collapse of the World Trade Center and consisted primarily of replacement of broken windows and some repair to the granite façade on the World Financial Center. While there was no structural damage to these four office towers, the glass-enclosed Winter Garden atrium at the center of the World Financial Center suffered more significant damage from falling debris than other areas of the complex. This component of the World Financial Center was fully restored and opened in September 2002. To date, approximately $187 million has been received for property and business interruption claims relating to One Liberty Plaza, One World Financial Center, the Winter Garden and common areas of the World Financial Center. Two and Four World Financial Center are covered by insurance in place under the tenant triple-net leases with Merrill Lynch. Brookfield's insurance claim adjustment process is ongoing due to the complexity of the issues involved. However, Brookfield anticipates recovery of all material amounts relating to the restoration and business interruption costs of its properties.

One Liberty Plaza and Four World Financial Center reopened in October 2001, and One and Two World Financial Center were reopened in the first quarter of 2002. No material lease cancellations in the New York portfolio occurred as a result of the events of September 11.

On September 13, 2001, Brookfield renewed its normal course issuer bid under which 2,402,700 common shares were acquired for cancellation at an average price of $17.30 per share in 2001.

On October 11, 2001, Brookfield completed the sale of Bramalea City Centre, a 1.2 million square foot regional shopping center complex in Toronto to institutional investors. This transaction, together with the sales of the Sevenoaks and West Oaks Malls in Vancouver, generated approximately $200 million in proceeds to Brookfield.

On October 19, 2001, Brookfield completed a $240 million refinancing of its 2.6 million square foot Bankers Hall property in Calgary. The non-recourse property financing has a term of 12 years and a fixed rate of 7.2%.

On March 12, 2002, Brookfield sold an undivided 50% interest in the Exchange Tower, a 1.1 million square foot office complex in downtown Toronto, to two Canadian pension funds. This transaction generated proceeds of approximately $55 million, net of non-recourse debt on the property.

On April 24, 2002, Brookfield completed a financing of the 300 Madison Avenue project which provides refinancing of the existing $300 million mortgage and additional funds to complete the development of the property. The financing is comprised of two series of pass-through certificates: the $400 million Series 2002 A-1 certificate with an average life of 20 years and a coupon of 7.262%, and the $160 million Series 2002 A-2 certificate to be funded through a commercial paper conduit facility and amortized over 10 years. The Series 2002 A-2 certificate provides for additional $140 million of availability for unanticipated development costs. Brookfield does not anticipate accessing this availability. This was the first financing of a major construction project in New York after September 11, 2001.

In 2002, Brookfield repurchased equity interests of the Corporation and its subsidiaries for cash in an amount of approximately US$82 million, including 1,385,900 of its own common shares under its normal course issuer bid. The Corporation renewed its normal course issuer bid on September 13, 2002 for a further one year period, permitting the Corporation to purchase up to 8,049,330 additional common shares on the New York Stock Exchange (the "NYSE") and the Toronto Stock Exchange (the "TSX").

On August 1, 2002 Brookfield sold a 50% interest in the 2.7 million square foot Bankers Hall Complex in Calgary to British Columbia Investment Management Corporation. This transaction generated net proceeds of approximately US$72 million, net of non-recourse debt on the property, based on a sale price of US$193 million.

On September 6, 2002, Brookfield announced that it had acquired a 51% interest in Three World Financial Center in Lower Manhattan from Lehman Brothers Holdings for US$158 million. The remaining 49% interest continues to be owned by American Express. Brookfield has the exclusive right to occupy 1.2 million square feet of space in Three World Financial Center. While Brookfield has guaranteed the acquisition financing, Brookfield intends to refinance this 51% interest with non-recourse permanent financing upon securing tenants for the space.

On September 25, 2002, Brookfield announced the completion of a C$200 million Class AAA, Series F preference share issue. Brookfield issued 8 million Class AAA Preference Shares, Series F at a price of C$25.00 per share to yield 6% per annum, including 2 million shares issued on the exercise of an option granted to the underwriting syndicate. The net proceeds were used to redeem C$200 million of Class AAA preference shares currently outstanding with an average coupon of 8.75% and held by Brascan Corporation. The Series F Preference Shares commenced trading on the TSX on September 25, 2002 under the symbol BPO.PR.F.

On October 29, 2002, the Board of Directors approved the special distribution of the Corporation's U.S. residential home building business, Brookfield Homes. Brookfield Homes commenced trading on the NYSE under the symbol "BHS" on January 7, 2003. This transaction allows Brookfield to focus on its core business of owning and operating premier office properties in select North American city centers, as well as enabling shareholders to maximize the value of their interest in Brookfield's U.S. residential home building operations by continuing as a shareholder or monetizing their investment. Common shareholders of record on January 2, 2003, received a special distribution equivalent to one-fifth of each Brookfield share that they owned. The value of the special dividend, based on a book value of $323 million of equity, was $2.00 per Brookfield common share and resulted in a reduction in the stated value of the Corporation's common equity of $323 million, as approved by the Corporation's shareholders on December 16, 2002. The Corporation has not retained any common share ownership of Brookfield Homes, however, it retains a $98 million subordinated note receivable maturing on December 31, 2005 which bears interest at 10%.

In December, 2002, Brookfield entered into a three-year $100 million credit facility with two major financial institutions, further enhancing liquidity and financial flexibility. In January 2003, an additional $30 million was added to this credit facility.

At December 31, 2002, total assets of Brookfield Homes included in the Corporation's assets were $879 million, an increase of $7 million over 2001 and $117 million over 2000. These assets are financed at the asset level by $556 million in construction debt facilities, payables and subordinated debt at December 31, 2002.

On December 31, 2002, Brookfield increased its interest in Brookfield Financial Properties to 98.5% for cash consideration of $56 million.

In March 2003, Brookfield acquired 1,802,700 of its own common shares at an average price of $18.47 per share. Subsequent to March 31, 2003, Brookfield acquired a further 1,777,300 shares at an average price of $19.71 per share. This brings the total number of shares repurchased since the inception of Brookfield's normal course issuer bid in 1999 to over 9.3 million.

In April 2003, Brookfield refinanced One World Financial Center with a $300 million, three-year first mortgage credit facility provided by Deutsche Bank Securities which is recourse to Brookfield Properties Corporation. An additional $102 million of financing was obtained by Brookfield upon closing. The previous $402 million mortgage carried an interest rate of 7.51% and a maturity of November 2003. The new floating rate financing is set at LIBOR plus 2%, which translates to an initial coupon of approximately 3.34% based on current rates. One World Financial Center, a 40-story, 1.6 million square foot tower, is fully leased.

In April 2003, the Corporation proposed a merger with BPO Properties Ltd. extending an offer to acquire the balance of outstanding common shares of BPO Properties not owned by Brookfield. The Corporation recently acquired 574,500 shares of BPO Properties in a private transaction with an institutional investor, bringing its equity interest in BPO Properties to 89%. The offer to BPO Properties' shareholders at a price of C$27 for each common share will be payable in a combination of cash and common shares of Brookfield. In addition to regulatory approval, completion of the merger transaction is subject to the approval of each class of shareholders of BPO Properties voting together as one class. The Board of Directors of BPO Properties has established a committee of independent directors to review the merger proposal. Subsequent to the approval of the offer, it is expected that BPO Properties will cease trading on the TSX.

BUSINESS OF BROOKFIELD

Brookfield owns, develops and manages premier North American office properties. In the commercial property business, Brookfield's portfolio spans 50 properties and development sites, primarily office, totaling 46 million square feet of rentable area in which Brookfield has a net effective ownership interest in 34 million square feet.

Brookfield's goal is to earn a 20% total return on equity with moderate risk of capital.

Brookfield employs approximately 1,300 people throughout the organization. Unless otherwise indicated, the information appearing below is stated as at, or in respect of the year ended December 31, 2002. The following describes each of these businesses and Brookfield's investment strategy for each business.

Total assets were $8.3 billion at December 31, 2002, or $7.5 billion on a pro forma basis, when the assets of Brookfield Homes are excluded. Total book value of assets remain consistent with 2001 as a result of the acquisition of 1.2 million square feet at Three World Financial Center and the additional costs realized on the construction of the 300 Madison Avenue office tower in Midtown Manhattan, offset by the sale of partial interests in two commercial properties and the disposition of the balance of the Corporation's retail portfolio in Canada. The book value of the Corporation's assets, segmented by areas of operation, is as follows:

	Pro Forma* Book Value	**Book Value**			
Millions	**2002**	**2002**	2001	**2002**	2001
Operating assets					
Commercial properties	**$5,661**	**$5,661**	$5,802	**86%**	91%
Development properties	**944**	**944**	575	**14%**	9%
	6,605	**6,605**	6,377	**100%**	100%
Other assets					
Receivables and others	**726**	**726**	757		
Future income tax assets	**43**	**43**	90		
Cash and cash equivalents	**76**	**76**	195		
Assets of Brookfield Homes	**—**	**879**	872		
	$7,450	**$8,329**	$8,291		

** Reflects distribution of Brookfield Homes completed on January 6, 2003.*

Commercial Property Portfolio

The commercial property portfolio is focused in six North American cities, with New York, Toronto and Boston accounting for 80% of the portfolio on a net asset value basis.

Asset Profile

The consolidated carrying book value of Brookfield's interest in 34.3 million square feet of rentable area is approximately $215 per square foot, significantly less than the estimated replacement cost of these assets. Brookfield's core properties average 1.4 million square feet in size.

The following table provides a summary of Brookfield's commercial property portfolio by city:

Region	Leaseable Area *000's sq.ft.*	Brookfield Owned Interest *000's sq.ft.*	**2002 Book Value** ***Millions***	2001 Book Value *Millions*
New York, New York	10,113	9,230	**$3,295**	$3,255
Toronto, Ontario	6,883	4,849	**778**	737
Boston, Massachusetts	2,163	1,103	**332**	333
Denver, Colorado	3,017	2,811	**354**	357
Calgary, Alberta	7,570	3,503	**380**	520
Minneapolis, Minnesota	3,008	3,008	**393**	391
Other	1,515	1,515	**129**	209
Total*	34,269	26,019	**$5,661**	$5,802

** Excludes developments.*

A total of approximately 270,000 square feet of vacant space was leased in 2002 and 2001, contributing $5 million to net operating income during 2002. Contributions to growth from vacancy lease up were larger in 2001 because of vacancies leased in properties acquired in 2000. Brookfield's total portfolio occupancy rate at December 31, 2002 declined from 97.3% to 95.5%, primarily due to vacancy increases in New York, Boston, Denver and Minneapolis. A summary of current and historical occupancy levels is as follows:

	Dec. 31, 2002		Dec. 31, 2001		Dec. 31, 2000	
Thousands of square feet	**Total Square Feet**	**% Leased**	Total Square Feet	% Leased	Total Square Feet	% Leased
New York, New York	**10,113**	**97.6%**	10,113	99.6%	9,846	99.6%
Toronto, Ontario	**6,883**	**96.3%**	6,866	96.7%	7,099	98.5%
Boston, Massachusetts	**2,163**	**97.4%**	2,163	98.7%	2,163	99.9%
Denver, Colorado	**3,017**	**90.1%**	3,014	95.5%	3,156	94.5%
Calgary, Alberta	**7,570**	**97.1%**	6,330	95.8%	6,471	93.5%
Minneapolis, Minnesota	**3,008**	**84.5%**	3,008	94.5%	3,008	95.5%
Other	**1,515**	**97.1%**	3,171	93.5%	5,157	95.0%
Total	**34,269**	**95.5%**	34,665	97.3%	36,900	97.0%

During the year, higher rental rates on the re-leasing of space in the portfolio contributed $8 million of increased cashflow over 2001. At December 31, 2002, average in-place net rents throughout the portfolio remained at $21 per square foot compared with $21 per square foot at December 31, 2001 and $19 per square foot at December 31, 2000. Despite challenging leasing environments in Brookfield's major markets, the Corporation was able to maintain its average in-place net rental rate, largely a result of re-leasing initiatives which were completed at an average rental uplift of $3 per square foot on space leased in 2001 and significant re-leasing initiatives in 2002 at equivalent rental rates. 2002 average market rents declined by $4 per square foot due to combined pressure from sub-lease space and decreased tenant demand, primarily in Denver, New York and Boston. However, given the low expiry rate of leases in the next two years, this decrease in rental rates will not have a substantial immediate impact on net operating income in the short term.

The following table shows the average in-place rents and estimated current market rents for similar space in each of the Corporation's markets:

	Gross Leasable Area	Average Lease Term	Average In-Place Net Rent Dec. 31, 2002	Average Market Net Rent Dec. 31, 2002
	000's sq.ft.	*Years*	*Per sq.ft.*	*Per sq.ft.*
New York, New York				
Midtown	1,693	14	$36	$55
Downtown	8,420	11	32	34
Toronto, Ontario	6,883	7	18	21
Boston, Massachusetts	2,163	5	30	40
Denver, Colorado	3,017	5	14	15
Calgary, Alberta	7,570	10	11	15
Minneapolis, Minnesota	3,008	5	11	11
Other	1,515	9	9	14
Total*	34,269	10	$21	$25

** Excludes developments.*

Tenant Relationships

An important characteristic of Brookfield's portfolio is the strong credit quality of its tenants. Special attention is directed at credit quality in order to ensure the long-term sustainability of rental revenues through economic cycles. The following list shows the largest tenants by leasable area in Brookfield's portfolio and their respective lease commitments:

Tenant	Primary Location	Year of Expiry(1)	000's Sq.Ft.(2)	% of Sq.Ft.(2)	Credit Rating(3)
Merrill Lynch & Company	New York/Toronto	2013	4,363	12.7%	A+
CIBC/CIBC World Markets	New York/Toronto/Calgary	2027	2,146	6.3%	A+
RBC Financial Group	Five markets	Various	1,057	3.1%	AA-
Petro-Canada	Calgary	2013	851	2.5%	BBB
J.P. Morgan Chase	New York	2022	802	2.3%	A+
Lehman Brothers	New York	2019	717	2.1%	A+
Imperial Oil	Calgary	2011	565	1.6%	AAA
Conoco Canada Resources	Calgary	2009	528	1.5%	A-
Target Corporation (Dayton HudsonCorp.)	Minneapolis	2013	465	1.4%	A+
Talisman Energy	Calgary	2015	406	1.2%	BBB+
Canadian Pacific Railway Co.	Calgary	2006	399	1.2%	A-
Goldman Sachs	New York	2012	362	1.1%	A+
Bell West/Bell Canada	Calgary/Toronto	2009	337	1.0%	A
Teachers Insurance Annuity Assoc.	Denver	2008	323	0.9%	AAA
Dow Jones & Company	New York	2005	323	0.9%	A+
TD Canada Trust	Toronto/Calgary	2005	278	0.8%	A+
Canadian Natural Resources	Calgary	2011	257	0.7%	BBB+
Anadarko Canada Corporation	Calgary	2011	246	0.7%	Baa1
Bank of Nova Scotia	New York	2014	230	0.7%	A+
Sovereign Bank/Fleet National Bank	Boston	2008	213	0.6%	A+
EnCana Corporation	Calgary	2013	212	0.6%	A-
Zurich Insurance	New York	2017	208	0.6%	A+
Other investment grade	Various	Various	3,471	10.2%	BBB- or Higher
			18,759	54.7%	
Unrated					
Goodwin Procter	Boston	2006	360	1.1%	—
Cleary, Gottlieb, Steen & Hamilton	New York	2011	383	1.1%	—
Wellington Management	Boston	2011	330	1.0%	—
National Assoc. of Securities Dealers	New York	2021	277	0.8%	—
Major League Baseball	New York	2012	109	0.3%	—
			20,218	59.0%	—

(1) Weighted average based on square feet. (2) Prior to considering partnership interests in partially-owned properties. (3) From Standard and Poor's or Moody's.

Brookfield's strategy is to sign long-term leases in order to mitigate risk and reduce overall retenanting costs in the portfolio. The Corporation typically commences discussions with tenants regarding their space requirements well in advance of the contractual expiration, and while each market is different, the majority of the Corporation's leases, when signed, extend between 10 to 20 year terms. As a result, approximately 5% of Brookfield's leases mature annually. New York and Boston are exceptions, where most of the 2002 to 2005 maturities were forward-leased in 2000 and 2001. As a result, there are minimal scheduled maturities of space during this period. Following is the breakdown of lease maturities by market with associated in-place rental rates:

	Total Portfolio			New York/Boston			Toronto/Calgary/Vancouver			Denver/Minneapolis/Other		
Year of Expiry	000's Sq.Ft.	%	Net Rate / Sq.Ft.-$	000's Sq.Ft.	%	Net Rate / Sq.Ft.-$	000's Sq.Ft.	%	Net Rate / Sq.Ft.-$	000's Sq.Ft.	%	Net Rate / Sq.Ft.-$
Currently Available	1,365	4.5%		285	2.3%		412	2.9%		668	8.9%	
2003	1,057	3.6%	$14	61	0.5%	$ 32	274	1.9%	$13	722	9.6%	$12
2004	1,070	3.5%	17	253	2.1%	32	372	2.6%	12	445	5.9%	12
2005	2,646	8.7%	24	786	6.4%	41	1,344	9.3%	17	516	6.8%	16
2006	2,508	8.2%	16	818	6.7%	25	829	5.7%	9	861	11.4%	13
2007	1,043	3.5%	16	112	0.9%	35	518	3.6%	14	413	5.5%	14
2008	1,767	5.7%	20	619	5.0%	31	583	4.0%	13	565	7.5%	16
2009	758	2.5%	17	93	0.8%	33	426	2.9%	16	239	3.2%	15
2010 & beyond	22,055	59.8%	21	9,249	75.3%	32	9,695	67.1%	14	3,111	41.2%	12
	34,269	100%	$21	12,276	100%	$32	14,453	100%	$14	7,540	100%	$12
Weighted average market net rent			$25			$38			$18			$13

Tenant Installation Costs and Capital Expenditures

On the majority of leases signed, Brookfield provides tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to this capital, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. Tenant improvement costs are capitalized in the year incurred, amortized over the term of the lease and recovered through rental payments. Expenditures for tenant improvements in 2002 were $49 million, compared with the $50 million expended in 2001 and $97 million in 2000 due to fewer leases expiring or being renegotiated in advance of their contractual maturity.

On an annual basis, one to two million square feet of leases expire with an average cost to replace these tenancies approximating $15 to $20 per square foot, with each region of operation varying in actual cost per foot. The average expenditure on tenant inducements over the last three years was $19 per square foot, reflecting the higher cost associated with New York leasing, where the majority of leasing during that period occurred. Tenant installation costs are summarized as follows:

Millions	**2002**	2001	2000
Commercial property tenant improvements			
Leasing commissions	**$ 9**	$15	$28
Tenant improvements-first generation space	**2**	—	—
Tenant improvements-second generation space	**38**	35	69
	$49	$50	$97

Brookfield also invests in ongoing maintenance and capital improvement projects to sustain the high-quality of the infrastructure and tenant service amenities in its properties. Due to the relatively recent construction or major renovation of Brookfield's core properties as well as high-quality construction standards, recurring capital maintenance expenditures are lower than industry norms. Capital maintenance expenditures totaled $16 million in 2002, an increase of $2 million over 2001 due to re-glazing programs in two properties in Calgary. These expenditures exclude repairs and maintenance costs which are recovered through contractual tenant cost recovery payments. It is expected that annualized non-revenue enhancing capital expenditures will remain approximately $6 to $10 million annually.

Revenue-enhancing capital expenditures, representing betterments to an asset or those that will reconfigure space to increase rentable area or increase current rental rates, as well as non-revenue enhancing expenditures, or those required to maintain the service life of an asset, are summarized as follows:

Millions	**2002**	2001	2000
Capital expenditures			
Revenue enhancing	**$10**	$ 8	$ 9
Non-revenue enhancing	**6**	6	3
	$16	$14	$12

Primary Markets

The following is a brief overview of the commercial property markets in which Brookfield operates:

Manhattan, New York

The New York market contains the largest area of office space in North America. The greater New York area has approximately 390 million square feet of office space with Manhattan containing approximately two-thirds of this space. Manhattan in turn is broken into three sub-markets: Midtown with 230 million square feet; Midtown south with 65 million square feet; and Lower Manhattan with 93 million square feet. Brookfield's 245 Park Avenue and 300 Madison Avenue properties are located in Midtown, the Corporation's Penn Station development property is centrally located within the designated West Side redevelopment area in Midtown, and the World Financial Center properties and One Liberty Plaza are located in Lower Manhattan.

The Midtown overall vacancy rate (including sublease space) at December 31, 2002 was 11.1%, up 2.9% from December 31, 2001. Class A overall vacancy was 10.1% compared with 7.6% at the end of 2001. The Midtown market has a low vacancy relative to most national markets; however the presence of substantial blocks of "shadow" space brings uncertainty to the market. Notwithstanding the softening Midtown leasing market fundamentals, building sale prices have continued to exceed expectations. Absorption for 2002 was negative 6.7 million square feet, of which Class A sublease space accounted for 45% of the total, compared with positive 1.2 million square feet in 2001.

The Lower Manhattan commercial office market, the third largest business district in the United States, consists of 93 million square feet of Class A, B and C space after taking into account the events of September 11, 2001 which eliminated approximately 13 million square feet of space in Lower Manhattan. The Lower Manhattan overall vacancy rate at December 31, 2002 was 13.2%, up from December 31, 2001 of 9.5%. Brookfield's Lower Manhattan portfolio is currently 97% leased to high-quality tenants with lease terms that average 11 years, and virtually no leases roll over until 2005.

In Lower Manhattan, overall absorption was negative four million square feet in 2002 compared to negative 4.5 million square feet in 2001. While 2002 was a difficult year for the Lower Manhattan market, the outlook is encouraging. Overall vacancy has remained relatively flat for the last quarter of 2002 and first quarter of 2003. Leasing activity in this market has picked up slightly, due in part to government incentives being offered to companies that renew within, or relocate to Lower Manhattan, as well as in part to ongoing Lower Manhattan redevelopment efforts. Excavation efforts of the World Trade Center site were completed in the spring of 2002, all subway lines were restored in the fall of 2002, and all streets were restored (Vesey and Liberty Streets for pedestrian traffic only). With a plan chosen for the redevelopment of the World Trade Center Site, a transportation plan announced, a memorial plan to be announced in the fall of 2003, and the support of the Mayor and Governor, the long-term fundamentals of the Lower Manhattan area should improve.

Toronto, Ontario

Brookfield's principal Toronto office properties are located in the financial core and are connected to other major downtown office buildings, the Toronto subway system and other amenities. Toronto is Canada's largest office market and the financial core has a total office space inventory of over 33 million square feet. The overall office vacancy at year end 2002 was 11.1% for all classes, an increase of 4.8% over 2001. However, the Class AAA sector, in which most of Brookfield's assets compete, had a vacancy rate of 5.8% at December 31, 2002 versus a vacancy rate of 3.2% at December 31, 2001. Supply of new projects has remained low and space available has declined from mid-2002 which should contribute to stabilizing the vacancy rate. In the near term, rental rates will remain under pressure until demand increases; however, any significant consolidation in the financial services sector may negatively impact this outlook.

Boston, Massachusetts

The Boston downtown office market consists of 49 million square feet in nine sub-markets. The central business district ("CBD") sub-market, where Brookfield's 53 and 75 State Street properties are located, is the largest with 33 million square feet. The overall vacancy rate in Boston's financial district was 10.1% at year end 2002 compared with 7.8% at year end 2001. The Class A segment of the market ended the year with a 9.4% vacancy compared to 7.1% the year before. Class A rental rates have decreased due to pressure from the sublease market and corporate downsizing. As a result, there is a resurgence of landlord concessions including free rent, assumptions of existing leases and increased tenant allowances.

Despite the increase in vacancy rates, the long-term fundamentals of the Boston market remain positive. The central business district market continues to be supply-constrained due to the small number of developable sites and a difficult entitlement process.

Denver, Colorado

The CBD office market in Denver has an inventory of approximately 23 million square feet. The telecommunications and high-tech industries continue to negatively impact job growth and office demand, and it is apparent that this fallout has also affected industries that service these sectors. As a result, the overall metro area vacancy rate in Denver is at the highest it has been in a decade. The overall vacancy rate in CBD increased to 20.1% at year end 2002, compared with 15.8% at year end 2001. For 2002, the Denver area saw a decline in total employment of 2.3%.

As a result of increased vacancy, average rental rates have continued to fall in all classes since the end of 2001. This has resulted in large concession packages to be considered the norm including tenant allowances in downtown submarkets and tenant improvement on a turn-key basis.

Calgary, Alberta

The downtown Calgary market is largely still driven by the oil and natural gas industries; however, the economy is diversifying, with Calgary boasting the second highest number of head offices in Canada, outranked only by Toronto.

Brookfield's office properties, located centrally in downtown Calgary account for over 6.5 million square feet of a total downtown office market inventory of over 31 million square feet.

Continued space rationalization following 2001's record M&A activity in the energy industry resulted in an increase of over 500,000 square feet in sublease availability during the fourth quarter and resulted in overall negative absorption of 1,124,840 square feet for 2002. Concerns over the potential implications of implementation of the newly ratified Kyoto Accord has led to a cautious approach by much of the oil and gas sector, as it relates to new capital spending.

Vacancy in the Class AA and A totaled 11.7% at year end, an increase of 3.4% over the previous year. Inventory increased slightly during the first quarter of 2003 and total vacancy in the downtown core across all classes stands at 13.8%.

Minneapolis, Minnesota

Minneapolis is a diverse market distinguished by its large population of company head offices, including 3M and Target. Brookfield's properties, totaling over three million square feet, are well-positioned at the center of the financial and retail district in downtown Minneapolis and are all connected to the city's above-ground, enclosed walkway system and its pedestrian malls.

The Minneapolis CBD office market has a total inventory of 25 million square feet and has direct office space availability of 16.7%, up from 11.9% at December 31, 2001. The increase in vacancy rates is a result of increased sublease space on the market, consolidations, downsizing and lack of demand and an additional 20% inventory to the market. Unemployment levels remain a reason for optimism; for 2002 unemployment was at 3.9%, less than the 6.0% national rate.

Development Properties

Development properties consist of both commercial property development sites, density rights and related infrastructure, as well as residential land and infrastructure in the Corporation's land development business and sold to builders for residential resale. The total book value of this development land and infrastructure was $944 million at December 31, 2002, an addition of $369 million over $575 million in 2001 and an increase of $575 million over $369 million in 2000. The majority of the increase in development properties is due to the acquisition of a 51% interest in Three World Financial Center in Lower Manhattan for $158 million in September 2002 and $197 million in additional expenditures related to the construction costs for the Corporation's 300 Madison Avenue project in Midtown Manhattan, expected to be completed in the fall of 2003. The aggregate book value of Brookfield's residential land under development is $224 million. The details of the development property portfolio are as follows:

Millions	Buildable Sq.Ft.	**2002**	2001	Change
Commercial developments and infrastructure				
300 Madison Avenue	1,200,000	**$437**	$240	$197
Three World Financial Center	1,200,000	**170**	—	170
Bay-Adelaide Centre	1,800,000	**72**	68	4
Hudson's Bay Centre	1,092,000	**20**	14	6
Other				
Penn Station	2,500,000			
BCE Place III	800,000			
Republic Plaza	400,000			
	3,700,000	**21**	22	(1)
	8,992,000*	**720**	344	376
Residential development land and infrastructure		**224**	231	(7)
		$944	$575	$369

** Excludes rights which Brookfield holds on Site 26 at the World Financial Center in New York.*

In September 2002, Brookfield acquired 1.2 million square feet of space in the 2.1 million square foot Three World Financial Center tower which is home to the world headquarters of co-owner American Express. Brookfield has exclusive rights to lease 1.2 million square feet of space and is not entitled to rents attributable to the space occupied by American Express. Three World Financial Center was acquired with all repairs completed to damage sustained as a result of the collapse of the World Trade Center. However, substantial construction remains to be completed prior to occupancy and will not proceed until a lead tenant can be secured. As such, this property has been classified as a property under development, and all direct costs of the tower, including interest costs and property taxes, will be capitalized to the asset.

During 2001, Brookfield commenced construction of the approximately 1.2 million square foot, 35-story 300 Madison Avenue office tower in Midtown Manhattan following the leasing of the entire project to CIBC for a 30-year term. Ground breaking on the site, which is located between 41st and 42nd Streets at Madison Avenue, took place in the spring of 2001, with substantial completion currently expected in the fall of 2003. During 2002, an additional $197 million of costs were incurred in connection with the construction of the project and was funded through a loan secured by the project, thereby minimizing Brookfield's equity investment. CIBC has an option to acquire a 49% interest in this project for cost for two years following the substantial completion of the project.

In February 2001, Brookfield acquired a 50% interest in the Bay-Adelaide Centre office and residential development project, located at the corner of Bay and Adelaide Streets in downtown Toronto, for an initial investment of $40 million. Brookfield subsequently acquired two small buildings adjacent to the site fronting Bay Street to further enhance the value of the project.

In addition to 300 Madison Avenue and Three World Financial Center in New York, as well as the Bay-Adelaide Centre in Toronto, Brookfield has additional commercial development sites which provide internal growth opportunities. The status of each development project is as follows:

	Location	Density	Status
New York			
300 Madison Avenue	42nd Street at Madison Avenue	1,200,000	- Under construction; expected delivery in Fall 2003
Three World Financial Center	200 Vesey Street at West Street	1,200,000	- Under redevelopment
Penn Station	West 31st Street at 9th Avenue	2,500,000	- Potentially being zoned for 2.5 million square feet of office
Toronto			
Bay-Adelaide Centre	Bay and Adelaide Streets	1,000,000 800,000	- Office tower planning - Sale or joint venture for residential project
BCE Place III	Third tower of current BCE Place project	800,000	- Planning
Hudson's Bay Centre	Yonge and Bloor Streets	1,092,000	- Office and retail projects under redevelopment
Denver			
Republic Plaza	Downtown Denver	400,000	- Planning
		8,992,000 *	

** Excludes rights which Brookfield holds on Site 26 at the World Financial Center in New York.*

Service Businesses

Brookfield's service businesses operate with the goal of enhancing value and returns in the core commercial property business. Brookfield provides management services in over 130 million square feet of rental space in markets across North America through its partnership with Johnson Controls in Brookfield LePage Johnson Controls (BLJC), a leading integrated facilitates management business. This scale enables the Corporation to leverage the strong tenant base culture to create superior service offerings for tenants.

Challenges and Risks

In evaluating the Corporation and its businesses, the following challenges and risk factors should be considered in addition to the other information outlined in the AIF.

Real Estate Industry

Real estate investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), the attractiveness of the properties to tenants, competition from others with available space and the ability of the owner to provide adequate maintenance at an economical cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made regardless of whether or not a property is producing sufficient income to service these expenses. Brookfield's properties are subject to mortgages, which require significant debt service payments. If Brookfield were unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale.

Real estate is relatively illiquid. Such illiquidity will tend to limit Brookfield's ability to vary its portfolio promptly in response to changing economic or investment conditions. Also, financial difficulties of other property owners resulting in distressed sales could depress real estate values in the markets in which Brookfield operates in times of illiquidity.

Financing

Upon the expiry of the term of the financing on any particular property owned by Brookfield, refinancing on a conventional mortgage loan basis may not be available in the amounts required or may be available only on terms less favorable to Brookfield than the existing financing. This will be dependent upon the economic circumstances prevailing at such time. To mitigate the risks of refinancing, Brookfield has reduced loan to value ratios, fixed interest rates, increased cashflow coverages and extended the term of most of its loans. Despite this, Brookfield relies on lenders to refinance long-term property mortgages as they come due. Also, a credit disruption in the capital markets could have an adverse impact on Brookfield's ability to implement its current leasing plans. Brookfield currently has $615 million of debt with variable interest rates, therefore operating performance would be negatively affected if interest rates increase.

Commercial Properties

Brookfield's income-producing properties generate revenue through rental payments made by tenants of the properties. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favorable to Brookfield than the existing lease. Brookfield could be adversely affected, in particular, if any major tenant ceases to be a tenant and cannot be replaced on similar or better terms.

Brookfield is dependent on leasing markets to ensure vacant commercial space is leased, expiring leases are renewed and new tenants are found to fill vacancies. While it is not expected that markets will significantly change in the near future, a disruption in the economy could have a significant impact on how much space tenants will lease and the rental rates paid by tenants. This would affect the income produced by Brookfield's commercial property group as a result of downward pressure on net effective rents.

Environmental Matters

As an owner and manager of real property, Brookfield is subject to various United States and Canadian federal, provincial, state and municipal laws relating to environmental matters. These laws could hold Brookfield liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect Brookfield's ability to sell its real estate or to borrow using real estate as collateral, and could potentially also result in claims or other proceedings against Brookfield. Brookfield is not aware of any material non-compliance with environmental laws at any of its properties. Brookfield is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any material pending or threatened claims relating to environmental conditions at its properties. Brookfield has formal policies and procedures to review and monitor environmental exposure. Brookfield has made and will continue to make the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and Brookfield may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on its business, financial condition or results of operation.

Foreign Exchange Fluctuations

While 20% of Brookfield's assets and revenues originate in Canada, Brookfield has substantially matched its Canadian assets with Canadian liabilities. As a result, Brookfield is generally not materially impacted by the movement in the Canadian to US dollar exchange rate.

Ground Lease Risks

Six of Brookfield's major properties are subject to long-term ground leases and similar arrangements in which the underlying land is owned by a third party and leased to Brookfield and any co-venturers or partners. Under the terms of a typical ground lease, Brookfield and any co-venturers or partners pay rent for the use of the land and are generally responsible for all costs and expenses associated with the building and improvements. Unless the lease term is extended, the land together with all improvements made will revert to the owner of the land upon the expiration of the lease term. Four properties in New York, in which Brookfield has an ownership interest through Brookfield Financial Properties, are subject to land leases held by the Battery Park City Authority in New York. These four ground leases expire in 2069. If possible, Brookfield will attempt to purchase these leases as they become available, but cannot be assured of this. The fifth major ground lease is on the land under the Bay Wellington Tower in BCE Place in Toronto which expires in 2085. The Corporation holds the right of first purchase to acquire this ground lease. The sixth ground lease is on the land under 53 State Street in Boston in which Brookfield has an ownership interest through Brookfield Financial Properties. This ground lease expires in 2039. The Corporation has a purchase option to acquire this ground lease exercisable in 2029. An event of default by Brookfield under the terms of a ground lease could also result in a loss of the property subject to such ground lease should the default not be rectified in a reasonable period of time.

Competition

Each segment of the real estate business is competitive. Numerous other developers, managers and owners of office properties compete with Brookfield in seeking tenants, management revenues and prospective purchasers. Although it is Brookfield's strategy to own premier office properties in each market in which it operates, some of the office properties of Brookfield's competitors may be newer, better located or better capitalized. The existence of competing developers, managers and owners for Brookfield's tenants could have a material adverse effect on Brookfield's ability to lease space in its properties and on the rents charged or concessions granted. This could adversely affect Brookfield's revenues and its ability to meet its obligations.

Insurance Covering Acts of Terrorism

Brookfield has insurance covering certain acts of terrorism for up to $300 million of damage and business interruption costs. In addition, Brookfield has obtained $500 million of terrorism insurance under the Terrorism Risk Insurance Act of 2002. This policy covers only U.S. properties for losses arising out of acts of terrorism that are covered by the Act. Brookfield continues to seek additional coverage equal to the full replacement cost of its assets; however, until this type of coverage becomes commercially available on an economically reasonable basis, any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to the Corporation. Brookfield believes it is in compliance with all of its loan covenants, despite not being able to acquire terrorism coverage for the full replacement cost of the Corporation's properties.

General Uninsured Losses

Brookfield carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. Brookfield also self insures a portion of certain of these risks. There are, however, certain types of risks (generally of a catastrophic nature such as war or environmental contamination) which are either uninsurable or not economically insurable. Brookfield currently has insurance for earthquake risks, subject to certain policy limits, deductibles and self insurance arrangements, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, Brookfield could lose its investment in, and anticipated profits and cashflows from, one or more of its properties, and Brookfield would continue to be obligated to repay any recourse mortgage indebtedness on such properties, although at December 31, 2002, minimal recourse mortgage debt existed. Additionally, although Brookfield generally obtains owner's title insurance policies for its U.S. properties, the amount of coverage under these policies may be less than the full value of the properties. If a loss occurs resulting from a title defect with respect to a property where there is no title insurance or the loss is in excess of insured limits, Brookfield could lose all or part of its investment in, and anticipated profits and cashflows from, such a property.

Tenant Defaults

At any time a tenant of any of Brookfield's properties may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of the tenant's lease and thereby cause a reduction in the cashflow available to Brookfield. Although Brookfield has not experienced material losses from tenant bankruptcies, no assurance can be given that tenants will not file for bankruptcy or similar protection in the future or, if any tenants do file for protection, that they will affirm their leases and continue to make rental payments in a timely manner. In addition, a tenant from time to time may experience a downturn in its business which may cause the loss of the tenant or may weaken its financial condition and result in the failure to make rental payments when due or, for retail tenants, a reduction in percentage rent payable. Merrill Lynch, which is rated Aa3 by Moody's and A+ by Standard & Poor's, is a major tenant of Brookfield and occupies approximately 13% of the effective square feet owned by Brookfield. If Merrill Lynch were not in a position to make rental payments, this could have an adverse effect on the profits and cashflow of Brookfield's operations.

Impact of September 11, 2001

On September 11, 2001, Brookfield owned eight million square feet of space in four office towers surrounding the World Trade Center site – One Liberty Plaza and One, Two and Four World Financial Center. The physical damage sustained by these properties was mainly cosmetic as a result of the attack on and subsequent collapse of the World Trade Center and consisted primarily of replacement of broken windows and some repair to the granite façade on the World Financial Center. While there was no structural damage to these four office towers, the glass-enclosed Winter Garden atrium at the center of the World Financial Center suffered more significant damage from falling debris than other areas of the complex. This component of the World Financial Center was fully restored and re-opened in September 2002.

To date, approximately $187 million has been received for property and business interruption claims relating to One Liberty Plaza, One World Financial Center, the Winter Garden and common areas of the World Financial Center. Two and Four World Financial Center are covered by insurance in place under the tenant triple-net leases with Merrill Lynch. Brookfield's insurance claim adjustment process is ongoing due to the complexity of the issues involved. However, Brookfield anticipates recovery of all material amounts relating to the restoration and business interruption costs of its properties.

To date, there have been no material lease cancellations in the New York office portfolio as a result of September 11, 2001. Brookfield conducted a full review of all its leases with various outside legal experts and concluded that it has complied with all conditions necessary to maintain its leases in good standing.

STOCK EXCHANGE LISTINGS

The common shares of Brookfield are listed on the New York and Toronto Stock Exchanges under the symbol "BPO."

DIVIDENDS AND DIVIDEND POLICY

The declaration and payment of dividends on Brookfield's common shares are at the discretion of the Board of Directors, which supports a stable and consistent dividend policy. In early 2001, Brookfield changed its policy to declare dividends in US dollars and to remit payment to shareholders in accordance with the country of the registered address of shareholders. Shareholders with registered addresses in Canada will receive payment in Canadian dollars (based on the exchange rate on the record date) unless they elect otherwise. On July 25, 2001, the Board of Directors announced a 50% increase in the Corporation's common share dividend and introduced quarterly payments rather than the previous semi-annual dividend. It is the intention of the Corporation to continue to review the pay-out of dividends quarterly on March 31, June 30, September 30 and December 31 of each year and to increase the amount in accordance with increases in reported cashflow.

On April 25, 2003, Brookfield's Board of Directors declared a quarterly dividend payment of US$0.10 per share on the issued and outstanding common shares of the Corporation, to be paid on June 30, 2003 to shareholders of record at the close of business on June 1, 2003.

Brookfield continues to pay dividends on its Class A preferred shares semi-annually and dividends on the Class AA and Class AAA preferred shares quarterly. A complete record of dividends paid on all classes of shares for the past five years is presented on page 2.

DIRECTORS AND OFFICERS

Directors of the Corporation hold office until the next annual shareholders' meeting or until their successors are elected or appointed. The name, municipality of residence and principal occupations of the directors and officers of Brookfield are provided below:

Name and Municipality of Residence	Office Held and Year First Elected a Director	Principal Occupation
Gordon E. Arnell New York, New York	Director (since 1989) and Chairman	Executive of the Corporation
David D. Arthur Toronto, Ontario	Director and President and Chief Executive Officer, Canadian Commercial Operations	Executive of the Corporation
William T. Cahill[1] Ridgefield, Connecticut	Director (since 2000)	Deputy Director, Risk Management, Citibank Community Development (an operating subsidiary of Citibank N.A., a real estate and debt equity transactions company)
Richard B. Clark New York, New York	Director and President and Chief Executive Officer	Executive of the Corporation
Jack L. Cockwell[2] Toronto, Ontario	Director (since 1998)	Co-Chairman, Brascan Corporation (property, financial and power company)
J. Bruce Flatt Toronto, Ontario	Director (since 2000)	President and CEO, Brascan Corporation (property, financial and power company)
Lance Liebman[2][3] New York, New York	Director (since 2003)	Professor of Law, Columbia Law School

Name and Municipality of Residence	Office Held and Year First Elected a Director	Principal Occupation
John R. McCaig, O.C.(2)(3) Calgary, Alberta	Director (since 1995)	Chairman, Trimac Corporation (diversified company)
Paul D. McFarlane(1) Mississauga, Ontario	Director (since 1998)	Retired
Allan S. Olson(1)(3) Edmonton, Alberta	Director (since 1995)	President and CEO, First Industries Corporation (investment and management company)
Sam Pollock, O.C.(1)(2)(3) Toronto, Ontario	Lead Director (since 1978)	Corporate Director
John E. Zuccotti New York, New York	Director (since 1998) and Co-Chairman	Chairman, Brookfield Financial Properties (commercial property company)
Steven J. Douglas Mississauga, Ontario	Executive Vice President, Chief Financial Officer	Executive of the Corporation
Dennis H. Friedrich New York, New York	Executive Vice President, Chief Operating Officer, U.S. Commercial Operations	Executive of the Corporation
Kathleen G. Kane New York, New York	Senior Vice President and General Counsel	Executive of the Corporation
G. Mark Brown New York, New York	Senior Vice President, Finance	Executive of the Corporation
Melissa J. Coley New York, New York	Vice President, Investor Relations	Executive of the Corporation
P. Keith Hyde Toronto, Ontario	Vice President, Taxation	Executive of the Corporation
T. Nga Trinh New York, New York	Vice President and Controller	Executive of the Corporation
Gordon E. Widdes Toronto, Ontario	Vice President, Information Technologies	Executive of the Corporation
Linda T. Northwood Stouffville, Ontario	Corporate Secretary	Executive of the Corporation

(1) Member of the Audit Committee. (2) Member of the Human Resources Committee. (3) Member of the Corporate Governance Committee.

Each of the directors and officers of the Corporation has held his or her principal occupation for the past five years, with the exception of: Mr. Arthur has held his present principal occupation since 1998; Mr. Clark who has held his present principal occupation since 2002, prior to which he held various senior roles, including the appointment of President and Chief Executive Officer, US Operations, in 2000; Mr. J. Cockwell, who has held his principal occupation since 2002, prior to which he was President and Chief Executive Officer of Brascan Corporation since 1995; Mr. Flatt who has held his principal occupation since 2002, prior to which he was President and Chief Executive Officer of Brookfield Properties Corporation since 2000 and prior to which he was President and Chief Operating Officer since 1996; Mr. Zuccotti who has held his present principal occupation since 1997, prior to which he was President & Chief Executive Officer of Olympia & York Companies (USA); Mr. Friedrich who has held his present principal occupation since 2002, prior to which he was Senior Vice President of Strategic Initiatives of the Corporation's New York-based affiliate, Brookfield Financial Properties, and prior to 2000 he was with Jones Lang LaSalle; Ms. Kane who has held her principal occupation since 2003, prior to which she was Senior Vice President and General Counsel of the Corporation's New York-based affiliate, Brookfield Financial Properties, and prior to 1997, she was with Cahill Gordon & Reindel; Mr. Brown who has held his principal occupation since 2001, prior to which he was Senior Vice President and Chief Financial Officer of the Corporation's New York-based affiliate, Brookfield Financial Properties, and prior to 2000 he was with Salomon Smith Barney and Citicorp Real Estate, Inc.; Ms. Coley who has held her principal occupation since 2002, prior to which she was Vice President, Artistic Director of Arts and Events/Marketing since 1999, prior to which she was Manager, World Financial Center Arts and Events since 1986; Ms. Trinh who has held her principal occupation since 2002, prior to which she held a senior financial role within the Corporation's

Canadian operations since 2000 and prior to 2000, she was with the Taxation Services Group of Deloitte & Touche LLP; Mr. Widdes who has held his present principal occupation since 2002, prior to which he was Vice President, Information Systems for the Corporation's Canadian based affiliate, and prior to 1998, he was with Spar Aerospace and Unicorp; and Ms. Northwood who has held her principal occupation since 2001, prior to which she held various roles within the Corporation and its affiliates.

As at the date hereof, the directors and senior officers of Brookfield own, directly or indirectly, or exercise control or direction over approximately 78 million common shares and 6 million Class A Redeemable Voting preferred shares, representing 48.3% and 97.1% respectively of the outstanding voting shares of each such class (see the information on page 2 of the Management Proxy Circular under the heading "Principal Holders of the Corporation's Voting Shares" which is incorporated by reference herein).

SCHEDULE A – COMMERCIAL PROPERTIES BY REGION

As at December 31, 2002	Number of Properties	Leased	Office	Retail / Other	Leasable Area	Effective Ownership Interest	Brookfield's Effective Interest
		%	*000's sq.ft.*	*000's sq.ft.*	*000's sq.ft.*	*%*	*000's sq.ft.*
New York							
World Financial Center							
One	1	99.3	1,520	108	1,628	100.0	1,628
Two	1	100.0	2,455	36	2,491	100.0	2,491
Four	1	100.0	1,711	89	1,800	51.0	917
Retail		56.8	—	287	287	100.0	287
One Liberty Plaza	1	93.0	2,194	20	2,214	100.0	2,214
245 Park Avenue	1	99.9	1,631	62	1,693	100.0	1,693
Developments							
300 Madison Avenue	1	—	1,200	—	1,200	100.0	1,200
Three World Financial Center	1	—	1,200	—	1,200	100.0	1,200
Penn Station	1	—	2,500	—	2,500	100.0	2,500
	8	97.6	14,411	602	15,013		14,130
Toronto							
BCE Place							
Canada Trust Tower	1	99.7	1,127	18	1,145	50.0	573
Bay Wellington Tower	1	96.8	1,295	42	1,337	100.0	1,337
Retail, parking and office	2	99.6	137	809	946	75.0	705
Exchange Tower Block	2	98.2	1,137	256	1,393	58.0	812
HSBC Building	1	92.1	188	37	225	100.0	225
Queen's Quay Terminal	1	92.6	428	74	502	100.0	502
Atrium on Bay	1	90.6	914	137	1,051	50.0	526
Other	2	100.0	284	—	284	59.0	169
Developments							
Bay-Adelaide Centre	1	—	1,000	800	1,800	50.0	900
Hudson's Bay Centre	1	—	535	557	1,092	25.0	273
BCE Place III	1	—	800	—	800	65.0	520
	14	96.3	7,845	2,730	10,575		6,542
Boston							
53 State Street	1	99.9	1,091	70	1,161	51.0	592
75 State Street	1	93.8	742	260	1,002	51.0	511
	2	97.4	1,833	330	2,163		1,103
Denver							
Republic Plaza							
Office	1	90.4	1,247	—	1,247	100.0	1,247
Development and other	1	—	400	548	948	100.0	948
Trade Center	2	86.7	767	43	810	100.0	810
Colorado State Bank Building	1	95.4	412	—	412	50.0	206
	5	90.1	2,826	591	3,417		3,211
Calgary							
Bankers Hall	3	94.1	1,955	750	2,705	50.0	1,353
Fifth Avenue Place	2	99.8	1,428	253	1,681	50.0	841
Petro-Canada Centre	2	98.5	1,707	245	1,952	50.0	976
Other	2	81.2	1,047	185	1,232	27.0	333
	9	97.1	6,137	1,433	7,570		3,503
Minneapolis							
33 South Sixth Street	2	78.1	1,082	695	1,777	100.0	1,777
Dain Plaza	2	93.4	593	638	1,231	100.0	1,231
	4	84.5	1,675	1,333	3,008		3,008
Other							
Royal Centre, Vancouver	1	94.5	493	360	853	100.0	853
Other	7	99.4	2,701	461	3,162	100.0	3,162
	8	97.1	3,194	821	4,015		4,015
Total portfolio	50	95.5	37,921	7,840	45,761		35,512
Less: other shareholders' interests							(1,395)
Brookfield's net effective ownership interest							34,117