FIRST PLACE TOWER
BROOKFIELD PROPERTIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED
MARCH 31, 2009

Management's Discussion and Analysis of Financial Results

FORWARD-LOOKING STATEMENTS

This interim report to our shareholder contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current beliefs and are based on assumptions and information currently available to the management of First Place Tower Brookfield Properties Inc. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "forecast", "outlook", "potential", "continue", "should", "likely", or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance, or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not be place undue reliance on forward-looking statements and information, because they involve assumptions, known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of the Company to differ materially from the anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include general economic conditions; local real estate conditions, including the development of properties in close proximity to the Company's property; timely re-leasing of occupied square footage upon expiration; dependence on tenants' financial condition; the uncertainties of real estate development; the ability to effectively integrate interest rates; availability of equity and debt financing; and the impact of newly adopted accounting principles on the Company's accounting policies and on period-to-period comparisons of financial results. The Company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.

PART I – OBJECTIVES AND FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2009 includes material information up to May 21, 2009. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar references, unless otherwise stated, are in thousands of Canadian dollars. The following discussion and analysis is intended to provide readers with an assessment of the performance of First Place Tower Brookfield Properties Inc. (the " Company" or "FPTBPI") over the past two years as well as our financial position and future prospects. It should be read in conjunction with the interim financial statements and appended notes. Additional information relating to the Company may be found on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

OVERVIEW OF THE BUSINESS

On October 21, 2005, 2072790 Ontario Inc., a company owned by a consortium consisting of BPO Properties Ltd., a subsidiary of Brookfield Properties Corporation, CPP Investment Board and ARCA Investments Inc., acquired all the issued and outstanding shares of O&Y Properties Corporation ("OYPC"), the ultimate parent company of O&Y FPT Inc. ("O&Y FPT") and O&Y Properties Inc. ("OYPI"). OYPC subsequently amalgamated with OYPI and certain other affiliates (including the Company's shareholder) to form Brookfield Properties (PI) Inc. ("BP(PI)I"). 2083503 Ontario Inc., a subsidiary of 2072790 Ontario Inc., through a series of transactions, then acquired the shares of O&Y FPT from BP(PI)I for $215 million. The acquisition was satisfied by the issuance of 58,112,021 common shares and a promissory note for $157 million to 2072790 Ontario Inc. Subsequently, 2083503 Ontario Inc. and O&Y FPT amalgamated to form FPTBPI. As this was effectively a transfer between companies under common control, the transfer was recorded at the carrying amount, the amount paid for the acquisition was recorded as a capital distribution and the comparative figures have been restated to reflect the operations of 2083503 Ontario Inc. and O&Y FPT as though they had been combined since inception.

The Company is the owner of 1 First Canadian Place ("FCP"), a 2.8 million square foot office tower and retail complex in the heart of Toronto's financial district, through a 50% freehold interest and a 50% leasehold interest in the land on which the property is built and a 100% ownership interest in the office tower, retail complex and podium. As the Company has a 100% ownership interest in the office tower, retail complex and podium, the financial statements include all of the revenue and operating costs of FCP less provisions for the ground rent and entitlements of the other FCP land owner.

At March 31, 2009 the book value of the Company's assets was $321.4 million (December 31, 2008 - $315.0 million). During the period ended March 31, 2009, the Company generated net loss of $1.1 million and $3.5 million for the period ended March 31, 2008.

OVERVIEW OF THE TORONTO MARKET

The information in the following paragraphs contains local real estate market data sourced from Cushman & Wakefield LePage Inc.

Toronto is the financial and industrial hub of Canada. The city features the headquarters and corporate offices of many of Canada's largest companies, including most of Canada's major banks.

In downtown Toronto, the Financial Core AAA office occupancy rate was 97.2% at March 31, 2009 compared with 98.2% at March 31, 2008. The 2009 and 2008, posted asking net rental rates for downtown Financial Core AAA office premises ranged from $28.00 to $41.00 per square foot.

2009 FIRST QUARTER HIGHLIGHTS

- During the three months ended March 31, 2009 and March 31, 2008 the Company leased 1,229 and 11,000 square feet of space, respectively, compared with expiries of 36,421 and 15,000 square feet, respectively. This included 1,165 and nil square feet of new leases and 64 and 11,000 square feet of renewals for the three months ended March 31, 2009 and 2008, respectively.
- Weighted average net rent at March 31, 2009 was $25.44 per square foot, compared with $24.97 per square foot at March 31, 2008.
- Overall occupancy at March 31, 2009 decreased to 95.2% compared with 98.2% at March 31, 2008.
- Net loss for the quarter ended March 31, 2009 was $1.1 million compared with $3.5 million (restated) net loss in the same period in 2008. The change is primarily due to a decrease in financing costs as a result of a lower participation bonus adjustment caused by a lower fair market value of the property.
- Net rental income for the quarter was $12.0 million compared with $10.6 million in same quarter in 2008. The increase is primarily due to lower ground rent and entitlement expense as a result of lower net operating income available for distribution.

The Company's financial results are as follows:

		Three months ended March 31		
(In thousands of dollars, except percentage amounts)		**2009**		2008
Revenues	**$**	**35,599**	$	35,805
Net rental income[(1)]		**12,039**		10,587[(3)]
Net loss		**(1,075)**		(3,525)[(3)]

(Thousands)		**March 31, 2009**		December 31, 2008
Rental property, net	**$**	**238,594**	$	239,177[(3)]
Total assets		**321,352**		315,012[(3)]
Secured debt[(2)]		**237,335**		239,699
Shareholder's deficiency		**(241,804)**		(240,729)[(3)]
Leased Percentage (%)		**95.2%**		96.5%

[(1)] *Net rental income is defined as revenues from rental property after operating expenses have been deducted, but prior to deducting financing, depreciation and amortization, general and administrative, capital tax and income tax expenses. Net rental income is used as a key indicator of performance as it represents a measure over which management has control. Net rental income is a non-GAAP measure which does not have any standardized measure prescribed by GAAP and therefore may not be comparable to similar measures presented by other real estate companies.*

[(2)] *Excludes $0.5 million and $0.6 million of deferred financing costs, respectively.*

[(3)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

OVERVIEW OF FIRST CANADIAN PLACE

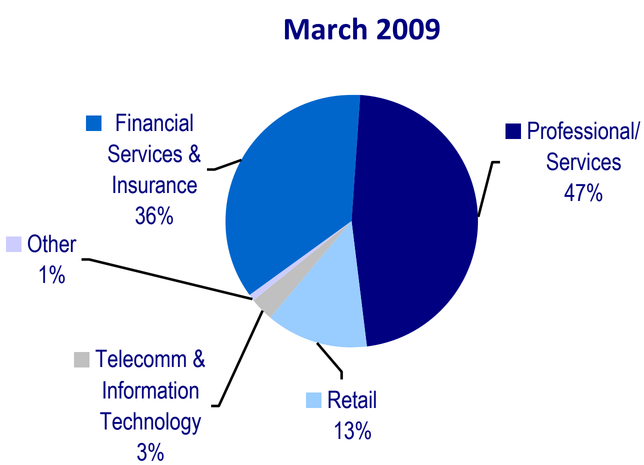
1 Property Profile at March 31, 2009

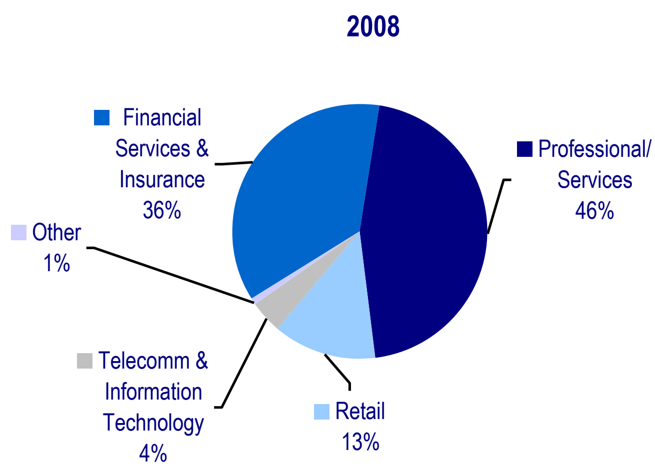
FCP occupies one of the most prominent and highly visible locations in Toronto's financial core, encompassing virtually an entire city block at the intersection of King and Bay Streets. At 72 storeys, it is the tallest office building in Canada. The building was constructed in 1975. Containing approximately 2.6 million square feet of gross leasable area ("GLA"), FCP is composed of a Class AAA office tower and a multi-level banking and retail podium at the base of and surrounding the tower. FCP has approximately 2.4 million square feet of rentable office space, including the banking hall of Bank of Montreal and the premises of the Toronto Board of Trade, approximately 200,000 square feet of rentable retail space, including premises used as a fitness facility, and an additional 52,000 square feet of storage space.

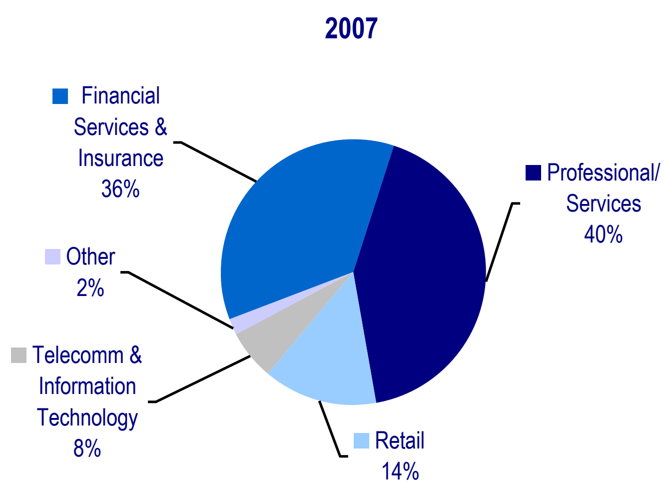
The Company believes that the advantages of FCP are its prime location, large floor plates, excellent views, well-established tenants with high quality covenants and abundant amenities.

2 Tenant Mix

The tenant mix[2] (by industry classification) by gross revenue[1] was as follows:







(1) Gross revenue, as presented here, excludes straight-line rent adjustments. See section "Operating Results" for the reconciliation of Gross Revenues prior to these adjustments and as reported in the Company's March 31, 2009 interim financial statements.

(2) Based on office, retail leases and below grade space.

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was $321.4 million at March 31, 2009 compared with $315.0 million at December 31, 2008. The increase is primarily attributable to the increase in cash held for use in the building's operations. The following is a summary of our assets:

(Thousands)	**March 31, 2009**	December 31, 2008
Rental property	**$ 238,594**	$ 239,177 [(1)]
Due from related parties	**9,769**	9,769
Future income taxes	**24,685**	24,246 [(1)]
Other assets	**31,777**	31,332
Cash	**16,527**	10,488
Total	**$ 321,352**	$ 315,012

[(1)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

RENTAL PROPERTIES

1 Top Five Tenants Based on GLA Occupied at March 31, 2009

Tenant	Industry classification	GLA (Sq. Ft.)	Percentage of total GLA	Credit Rating[(1)]
1. Bank of Montreal/Nesbitt Burns	Financial services	1,066,000	41%	AA-
2. Osler, Hoskin & Harcourt LLP	Service/professional	270,000	10%	—
3. Gowlings Canada Inc.	Service/professional	170,000	7%	—
4. Bennett Jones Services Ltd.	Service/professional	145,000	6%	—
5. Fraser Milner Casgrain	Service/professional	138,000	5%	—
		1,789,000	69%	

[(1)] *From Standard & Poors*

The weighted average lease term as of March 31, 2009 for the top five tenants based on GLA occupied is 8.5 years.

Included in the total space occupied by Bank of Montreal/Nesbitt Burns at March 31, 2009 is approximately 538,000 square feet of space occupied by Bank of Montreal (inclusive of the banking hall) expiring in December 2023. The average net rental rate for this space was $9.73 per square foot for the period ended March 31, 2009. Approximately 157,000 square feet of this space is below grade office and bank-related space. The average net rental rate for the below grade space was $7.28 per square foot for the period ended March 31 2009. The balance of the space is at an average net rental rate of $10.75 per square foot.

The average net rental rate per square foot is adjusted periodically with reference to an interest rate ("AIR") agreed upon by the landowners in accordance with the FCP land lease, as described in the "Land Lease" section. Upon expiry, the 538,000 square feet of space occupied by Bank of Montreal may be renewed or re-leased at market rents in effect at that time.

2 Leasing and Occupancy

During the three months ended March 31, 2009, approximately 1,229 square feet of available space was leased at a weighted average rate of $68.05 per square foot, compared with lease expiries of 36,421 square feet at $22.72 per square foot.

	March 31, 2009	December 31, 2008
Expiries (sq. ft.)	**36,421**	337,700
Weighted average net rent per sq. ft.	**$ 22.72**	$ 24.09
Committed renewals/new leasing (sq. ft.)	**1,229**	289,400
Weighted average net rent per sq. ft.	**$ 68.05**	$ 32.54

Occupancy levels and rental rates for FCP were as follows:

	March 31, 2009	December 31, 2008
Leased Percentage	**95.2%**	96.5%
Average rental rate per sq. ft. in place - end of quarter	**$ 25.44**	$ 24.79

3 Lease Maturities

Lease maturities for FCP are as follows:

Year of Expiry	000's sq. ft.	Percentage of total GLA	Weighted average net rent per sq. ft. - $
Currently available	125,810	4.8%	$ —
2009	46,315	1.8%	34.50
2010	180,458	6.9%	31.70
2011	81,818	3.1%	30.84
2012	86,720	3.3%	30.86
2013	626,827	24.0%	29.42
2014	66,592	2.6%	32.94
2015	275,571	10.6%	31.83
2016	181,615	7.0%	32.70
2017 & beyond	939,677	36.0%	17.51
Subtotal	2,611,403	100%	25.88
Parking	169,597	—	
Total	2,781,000	100%	$ 25.88

LAND LEASE

The Company's interest in FCP consists of a 50% freehold interest in the land, a 50% leasehold interest in the land and a 100% ownership interest in the building. If all the outstanding entitlement balances, as described in Note 4 to the March 31, 2009 financial statements, have been recovered as of December 31, 2023, the land lease will expire and the other FCP landowner, Manulife Financial Corporation ("Manulife"), will have the option to acquire, for a nominal amount, an undivided 50% beneficial interest in the FCP building. If, however, there are amounts still to be recovered, the land lease may be extended for a maximum of 50 years until all such amounts have been paid. The Company's 50% leasehold interest in the land is governed by a land lease with Manulife. Under the land lease, the Company coordinates efforts with Manulife through a committee that oversees the performance of the property. During the term of the land lease, Manulife is entitled to certain distributions to the extent cash is available.

The magnitude of certain annual entitlements, that are distributed 100% to the Company, is determined with reference to the AIR agreed upon by the landowners. A higher AIR reduces the annual entitlement to Manulife. The AIR for the period ended March 31, 2009 was 4.85% (December 31, 2008 – 4.85%). The AIR was fixed at 4.85% for the three years ending December 31, 2009.

Statement of Entitlement Distributions

The table below sets out the amount available for entitlements and the entitlements earned by the respective FCP landowners.

					March 31, 2009				December 31, 2008
(Thousands)	Financial Statements Note		**MLI**		**Company**		**Total**		Total
Excess of revenues over operating costs	4(a)	**$**	**5,483**	**$**	**7,483**	**$**	**12,966**	$	50,713
Entitlements distributed									
Construction amount	4(b)		—		**2,636**		**2,636**		12,469
Ground rents	4(c)		**74**		**74**		**148**		1,782
Additional amounts	4(d)		—		**131**		**131**		1,571
Earnings participation	4(f)		**888**		—		**888**		888
Capital tax amount	4(g)		—		**121**		**121**		128
Remaining gross receipts	4(h)		**2,000**		**2,000**		**4,000**		29,501
			2,962		**4,962**		**7,924**		46,339
Undistributed (excess distribution of) entitlements			**2,521**		**2,521**		**5,042**		4,374
Undistributed (excess distribution of) entitlements, beginning of year			**709**		**709**		**1,418**		(2,956)
Undistributed (excess distribution of) entitlements, end of period		**$**	**3,230**	**$**	**3,230**		**6,460**	$	1,418

DUE FROM RELATED PARTIES

Amounts due from related parties remain unchanged at $9.8 million.

Due from related parties consists of:

(Thousands)		**March 31, 2009**		December 31 2008
Advances receivable from BP(PI)I, non interest bearing	**$**	**9,769**	$	9,769
	$	**9,769**	$	9,769

OTHER ASSETS

Other assets increased to $31.8 million at March 31, 2009 from $31.3 million at December 31, 2008 primarily due to increase in free rent receivable from Bennett Jones occupying additional units comprising of approximately 60, 000 square feet offset by a decrease in prepaid insurance.

The components of other assets are as follows:

(Thousands)		**March 31, 2009**		December 31 2008
Accounts receivable	**$**	**28,918**	$	28,146
Prepaid expenses and deposits		**729**		1,056
Restricted cash [1]		**2,130**		2,130
	$	**31,777**	$	31,332

[1]Restricted cash consists of $2.1 million as of March 31, 2009 (December 31, 2008 - $2.1 million) of cash held in trust pursuant to the trust indenture governing the 8.06% First Mortgage Bonds (see page 10 for a description of these Bonds).

CASH

Cash provided by operating activities represents the primary source of liquidity to service debt payments, capital improvements, tenant inducements and leasing costs.

The Company's cash provided by operating activities is dependent upon the occupancy level of FCP, the rental rates on its leases, the collectability of rent from its tenants, the level of operating and other expenses, ground rent and entitlement payments to Manulife and other factors. Material changes in these factors may adversely affect the Company's net cash flow from operating activities and liquidity. A more detailed discussion of these risks are found under the "Risks and Uncertainties" section. Management expects to be able to meet all of the Company's ongoing obligations and to finance future growth by using cash provided by operating activities and conventional real estate debt.

Cash was $16.5 million at March 31, 2009 compared to $10.5 million at December 31, 2008. Cash of $16.5 million were held for use in FCP's operations as at March 31, 2009 (December 31, 2008 - $9.2 million).

UTILIZATION OF CASH RESOURCES

The following table illustrates the utilization of cash flows generated by our operating activities, and our financing and investing initiatives:

	Three months ended March 31	
(Thousands)	**2009**	2008
Cash provided by (used in):		
Operating activities	**$ 7,790**	$ 6,086 [1]
Investing activities	**(823)**	(6) [1]
Financing activities	**(928)**	(3,992)
Increase in cash	**6,039**	2,088
Cash, beginning of the year	**10,488**	4,075
Cash, end of the period	**$ 16,527**	$ 6,163

[1] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

a) Operating Activities

	Three months ended March 31	
(Thousands)	**2009**	2008
Operating activities		
Net loss	**$ (1,075)**	$ (3,525) [1]
Add (deduct) non-cash items:		
Depreciation and amortization	**3,998**	3,528 [1]
Amortization of deferred financing costs	**157**	151
Future income tax recovery	**(439)**	(1,495) [1]
Interest payable to 2072790 Ontario Inc.	**3,966**	6,367
Net change in operating assets and liabilities	**3,827**	1,627
Tenant inducements and leasing costs	**(48)**	(46)
Recoverable expenditures	**(2,596)**	(521)
Cash flows provided by operating activities	**$ 7,790**	$ 6,086

[1] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

Commercial real estate is a capital-intensive business. The Company is continuously investing in leasing costs for new and renewal lease transactions and in the on-going repair and maintenance of the property.

Certain repair and maintenance items are recoverable from tenants pursuant to the terms of their leases, either in the year such expenditure is incurred, or, in the case of a major item of repair, maintenance or replacement, on a straight-line basis over the expected useful life of such repair, maintenance or replacement.

Expenditures for tenant inducements and leasing costs at March 31, 2009 and March 31, 2008 remained at $0.05 million.

Recoverable expenditures for the period included routine repairs and maintenance in the ordinary course. Recoverable expenditures in March 31, 2009 was $2.6 million compared to $0.5 million in March 31, 2008.

b) Investing Activities

	Three months ended March 31	
(Thousands)	**2009**	2008
Expenditures on rental property	**$ (823)**	$ (6) [1]
Cash flows used in investing activities	**$ (823)**	$ (6) [1]

[1] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

Cash used in investing activities for the quarter ended March 31, 2009 was $0.8 million and $0.01 million in the same period in 2008. The $0.8 million used in investing activities for the period ended March 31, 2009 relates to the on-going renovation projects in the property.

c) Financing Activities

(Thousands)	Three months ended March 31 2009	2008
Repayment of secured and unsecured indebtedness	**$ (2,364)**	$ (2,184)
Increase (decrease) in amounts due to related parties	**1,436**	(1,808)
Cash flows used in financing activities	**$ (928)**	$ (3,992)

Cash used in financing activities for the quarter ended March 31, 2009 was $0.9 million compared to $4.0 million in the same period in 2008. This is due to increase in advances from the co-owners.

FUTURE INCOME TAXES

At March 31, 2009 the net future income tax asset was $24.7 million compared to $24.2 million at December 31, 2008, an increase of $0.5 million. This is due to net loss incurred for the period ended March 31, 2009. The components of future income tax assets are as follows:

(Thousands)	March 31, 2009	December 31, 2008
Future income tax assets related to:		
i) Non-capital losses	**$ 21,044**	$ 20,549
ii) Debt redemption and share issuance costs	**2,839**	2,945
iii) Difference in tax and book base of rental property and other assets, net	**802**	752 [(1)]
	$ 24,685	$ 24,246

[(1)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

LIABILITIES AND SHAREHOLDER'S DEFICIENCY

Our asset base of $321.4 million is financed with a combination of debt and common equity. The components of our liabilities and shareholder's deficiency are as follows:

(Thousands)	March 31, 2009	December 31, 2008
Liabilities		
Secured & unsecured indebtedness	**$ 237,972**	$ 240,179
Due to related parties	**305,203**	299,801
Accounts payable and accrued charges	**19,981**	15,761
Shareholder's deficiency		
Share capital	**58,112**	58,112
Deficit	**(299,916)**	(298,841) [(1)]
	$ 321,352	$ 315,012

[(1)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

SECURED AND UNSECURED INDEBTEDNESS

(Thousands)	March 31, 2009	December 31, 2008
8.06% First Mortgage Bonds (a)	**$ 236,855**	$ 239,062
Unsecured indebtedness (b)	**1,117**	1,117
	$ 237,972	$ 240,179

(a) 8.06% First Mortgage Bonds

The 8.06% First Mortgage Bonds with an initial aggregate principal amount of $300.0 million attract interest calculated semi-annually, at 8.06% per annum. The First Mortgage Bonds are secured under a bond indenture by a fixed and floating charge and security interest on all assets of the Company.

The First Mortgage Bonds mature in December 2009, and are due as follows:

(Thousands)		March 31, 2009
2009	$	237,335
Deferred financing costs		(480)
	$	236,855

(b) Unsecured Indebtedness

The unsecured debentures bear interest payable semi-annually, in arrears, at 11.0% per annum and mature in 2015. They are direct, unsecured obligations of the Company and rank subordinate to all other present and future indebtedness of the Company.

Secured and unsecured indebtedness is classified as other financial liabilities under the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and is measured at amortized cost.

The fair value of secured and unsecured indebtedness is determined by reference to current market rates for debt with similar terms and risks.

For the quarter ended March 31, 2009, interest expense of $4.7 million (March 31, 2008 - $4.9 million) was recorded for the secured and unsecured indebtedness.

Financing risk arises when lenders will not refinance maturing debt on terms and conditions acceptable to the Company, or on any terms at all. The Company has debt including debt due to related parties, maturing in 2009 in the amount of $302.8 million. This debt is expected to be refinanced in the normal course of business.

The Company is exposed to interest rate risk on its borrowings. It minimizes this risk by attaining long-term fixed rates.

DUE TO RELATED PARTIES

(Thousands)		March 31, 2009		December 31, 2008
Participating loan and accrued interest payable to 2072790 Ontario Inc. (1)	$	94,028	$	94,065
Promissory note payable to 2072790 Ontario Inc. (2)		157,000		157,000
Accrued interest payable to 2072790 Ontario Inc (2)		48,721		44,718
Advances payable to 2072790 Ontario Inc., non-interest bearing		5,454		4,018
	$	305,203	$	299,801

1) Participating Loan Payable to 2072790 Ontario Inc.

On June 27, 2001, the Company received $55.0 million in respect of the proceeds of a participating loan with a related party, O&Y Real Estate Investment Trust which was another subsidiary of OYPI's parent company, OYPC. On November 29, 2005, in connection with the transactions described in "Overview of the Business", the participating loan was acquired by 2072790 Ontario Inc., the parent company of FPTBPI. The loan is due December 1, 2009 and bears interest payable monthly, equal to, on an annual basis, the sum of (i) 11.0% and (ii) 25.0% of the Company's interest in annual cash flow before debt service from FCP exceeding $40.0 million, subject to a maximum yield of 12.5% per annum. Interest on the participating loan for the period ended March 31, 2009 was accrued at a rate of 11.0% (December 31, 2008 - 11.0%). To the extent that annual cash flow after debt service from the Company's interest in FCP is insufficient to fund any monthly payment on the participating loan, such shortfall will be added to the principal amount outstanding.

In consideration of being granted the participating loan, the Company agreed not to place further financial encumbrances on FCP. In addition, all outstanding shares of the Company have been pledged as security for the FCP participating loan. At maturity (or earlier in the event of a sale or partial sale of the Company's interest in FCP), the principal amount outstanding (or the proportionate amount thereof in the event of a partial sale) will be repaid to 2072790 Ontario Inc. In addition, at maturity (or earlier in the event of a sale or partial sale of the Company's interest in FCP) 2072790 Ontario Inc. will be entitled to receive 10% of the amount by which the then appraised fair market value of the Company's interest in FCP (or net proceeds in the event of a sale or partial sale) exceeds $514.0 million (or proportionate amount thereof in the event of a partial sale). In the event of a partial sale prior to maturity, the $40.0 million cash flow threshold and the $514.0 million fair market value threshold referred to above will be proportionately reduced to reflect such partial sale.

The amount due on the participating loan, including the accrued interest payable and the participation bonus, for the period ended March 31, 2009 was $94.0 million (December 31, 2008 - $94.1 million). The total interest expense related to this liability for the period ended March 31, 2009 was a credit adjustment of $0.04 million (March 31, 2008 – $2.8 million) as a result of the lower fair value of the property in which the participation bonus is based on.

2) Promissory Note Payable to 2072790 Ontario Inc.

On October 21, 2005, in conjunction with the transactions described in "Overview of the Business" a $157.0 million promissory note was issued by the Company to 2072790 Ontario Inc. The promissory note payable is a subordinated unsecured obligation of the Company and bears interest at 8.01% per annum payable on June 30th and December 31st in each year. The note payable is due October 21, 2015 and may be prepaid in whole or any portion of the principal amount subject to a minimum principal prepayment of $1.0 million.

Debt repayment obligations at March 31, 2009 were as follows:

	Maturing debt (in thousands of dollars)						
Three months ended March 31,	Principal Repayments	8.06 % First Mortgage Bonds	Unsecured indebtedness	Participating Loan payable to 2072790 Ontario Inc.	Promissory Note Payable to 2072790 Ontario Inc.	Total Debt[2]	Interest Expense[1]
2009	7,378	229,957	—	72,800	—	310,135	24,861
2010	—	—	—	—	—	—	12,699
2011	—	—	—	—	—	—	12,699
2012	—	—	—	—	—	—	12,699
Thereafter	—	—	1,117	—	157,000	158,117	35,644
	$ 7,378	$ 229,957	$ 1,117	$ 72,800	$ 157,000	$ 468,252	$ 98,602

[1]Represents aggregate interest expense expected to be paid over the term of the debt, on an undiscounted basis, based on current interest rates.

[2]Debt excludes $0.5 million of deferred financing costs.

ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable and other liabilities totalled $20.0 million at March 31, 2009, compared with $15.8 million at December 31, 2008. A summary of the components of accounts payable and accrued charges were as follows:

(Thousands)	**March 31, 2009**	December 31, 2008
Accounts payable	**$ 6,721**	$ 3,691
Accrued charges	**13,260**	12,070
	$ 19,981	$ 15,761

FORWARD CONTRACTS

An affiliate of the Company has entered into fixed-rate contracts for the provision of gas for FCP. The purpose of the contracts was to reduce the exposure to gas price increases. The gas contract covers the period November 1, 2007 to October 31, 2009. Utility costs are recoverable from tenants.

SHARE CAPITAL

Shareholder's deficiency was $241.8 million at March 31, 2009 compared with $240.7 million at December 31, 2008. The increase was due to a net loss incurred for the period ended March 31, 2009 and the impact of changes in accounting policy on Goodwill and Intangible Assets.

There are 58,112,022 common shares of the Company outstanding at March 31, 2009 (December 31, 2008 – 58,112,022) all of which are owned by 2072790 Ontario Inc.

CAPITAL STRUCTURE

(Thousands)	**March 31, 2009**	December 31, 2008
8.06% First Mortgage Bonds	**$ 236,855**	$ 239,062
Unsecured indebtedness	**1,117**	1,117
Participating loan payable to 2072790 Ontario Inc.	**72,800**	76,100
Promissory note payable to 2072790 Ontario Inc.	**157,000**	157,000
Advances payable to 2072790 Ontario Inc., non-interest bearing	**5,454**	4,018
Total debt	**473,226**	477,297
Shareholder's deficit	**(241,804)**	(240,729) [1]
	$ 231,422	$ 236,568

[1] Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.

OPERATING RESULTS

NET INCOME

Our net losses for the three months ended March 31, 2009 and March 31, 2008 were $1.1 and $3.5 million, respectively. This is primarily due to:

- an increase of $1.4 million in net rental income primarily due to lower ground rent and entitlement expense;
- a decrease in financing costs of $2.5 million due to a lower adjustment on the participation bonus relating to the $55 million participating loan and lower interest on secured debt; offset by:
- an increase of $0.5 million in depreciation and amortization due to an increase in recoverable capital expenditures and leasing costs, and
- a decrease of $1.1 in income tax recovery due to a lower loss before income taxes.

Set out below is a summary of the various components of our net loss and funds from operations. Discussion of each of these components is provided on the following pages.

	Three months ended March 31	
(Thousands)	**2009**	2008
Revenues		
Revenues from rental property	**$ 35,599**	$ 35,805
Rental property operating costs		
Rental property operating expenses and realty taxes[(1)]	**18,077**	18,219
Ground rent and entitlements	**5,483**	6,999
	23,560	25,218
Net rental income	**12,039**	10,587
Financing expense	**8,822**	11,349
Depreciation and amortization	**3,998**	3,528[(2)]
General and administrative expenses	**600**	598
Capital tax	**133**	132
	13,553	15,607
Net loss before taxes	**(1,514)**	(5,020)
Income tax recovery	**439**	1,495[(2)]
Net loss	**$ (1,075)**	$ (3,525)

[(1)] *Excludes capital tax which is reclassified to other expenses.*

[(2)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

NET RENTAL INCOME

(Thousands)	Three months ended March 31 **2009**	2008
Rents, excluding straight-line rent	**$ 15,751**	$ 15,720
Recoveries from tenants	**18,571**	18,644
	34,322	34,364
Parking and other income	**1,003**	976
Revenues, excluding straight-line rent (1)	**35,325**	35,340
Realty taxes	**10,553**	10,517
Maintenance, utilities and other costs	**7,524**	7,702
Rental operating expenses and realty taxes	**18,077**	18,219
Net rental income before ground rent and entitlements	**17,248**	17,121
Ground rent and entitlements	**5,483**	6,999
Net rental income on a comparable basis(1)	**11,765**	10,122
Rental revenue recognized on a straight-line basis	**274**	465
Net rental income	**$ 12,039**	$ 10,587
Net rental income - margin	**33%**	30%

(1)Net rental income on a comparable basis represents net rental income excluding the effect of the rental revenue recognized on a straight-line basis, thereby allowing for the analysis of the property performance of the Company.

Net rental income for the three months ended March 31, 2009 was $12.0 compared to $10.6 for the three months ended March 31, 2008. This is primarily due to lower ground rent and entitlement expense as a result of lower net operating income available for distribution.

OTHER COSTS

(Thousands)	Three months ended March 31 **2009**	2008
Financing expense	**$ 8,822**	$ 11,349
Depreciation and amortization	**3,998**	3,528 (1)
General and administrative expenses	**600**	598
Capital tax	**133**	132
	$ 13,553	$ 15,607

(1) Figures were restated for the adoption of a new accounting policy, refer to Part IV (“Critical Accounting Policies and Estimates”) on page 18.

Other costs for the three months ended March 31, 2009 was $13.6 million and $15.6 million for the three months ended March 31, 2008. The decrease was mainly due to lower interest expense on the $55.0 million participating loan as a result of a lower fair market value of the property offset by an increase in amortization expense caused by an increase in capital expenditures and leasing costs.

INCOME TAX RECOVERY

(Thousands)	Three months ended March 31 **2009**	2008
Future income tax recovery	**$ 439**	$ 1,456 (1)
Other	—	39
	$ 439	$ 1,495

(1) Figures were restated for the adoption of a new accounting policy, refer to Part IV (“Critical Accounting Policies and Estimates”) on page 18.

Income tax recovery for the three months ended March 31, 2009 was $0.4 million compared to $1.5 million for the three months ended March 31, 2008. The decrease was mainly due to lower net losses before income taxes for the period ended March 31, 2009.

QUARTERLY INFORMATION

(Thousands)	**Mar. 31, 2009**	Dec. 31, 2008	Sep. 30, 2008	Jun. 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	Jun. 30, 2007
	Quarter ended							
Revenues	**35,599**	36,227	37,243	35,189	35,805	$38,157	$34,121	$33,323
Net (loss) income	**(1,075)**	640[(1)]	(1,583)[(1)]	(2,375)[(1)]	(3,525)[(1)]	(3,606)	(3,115)	(3,704)
Total assets	**321,352**	315,012[(1)]	312,486[(1)]	308,932[(1)]	310,941[(1)]	309,863	305,502	303,353
Total liabilities	**563,156**	555,741	553,620	548,319	547,889	543,286	534,114	528,849

[(1)] *Figures were restated for the adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 18.*

Dated: May 21, 2009

PART III – RISKS AND UNCERTAINTIES

In evaluating the Company and its business, the following is a brief review of the potential material factors and the impact these factors may have on the Company's operations.

LEASE ROLL-OVER AND CREDIT RISK

Lease roll-over risk arises from the possibility that the Company may experience difficulty renewing leases as they expire or in releasing space vacated by tenants upon early lease expiry. Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments.

The Company attempts to mitigate these risks by staggering the lease expiry profile so that we are not faced with disproportionate amounts of space expiring in any one year. The Company further mitigates these risks by proactively leasing space in advance of its contractual expiry and ensuring that the tenant mix is diversified and by limiting exposure to any one tenant. FCP has a high level of occupancy with established, quality tenants. Its exposure to leases expiries in the near term is low. As such, the Company believes that the net rental income from FCP is stable in the near term, absent any bankruptcy of a significant tenant. Currently, the Company's major tenant is Bank of Montreal/Nesbitt Burns from which it earns 36% of its total revenues.

LAND LEASE

As FCP is partially located on leased land, the land lease entitlements are subject to change as described in the "Land Lease" section which may fluctuate and may result in significant adjustments to the Company's ground rent and entitlements expense.

ENVIRONMENTAL RISK

As an owner of real property, the Company is subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that the Company could be liable for the costs of removing certain hazardous substances and remediating certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the Company's ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against the Company. The Company is not aware of any material non-compliance with environmental laws nor is the Company aware of any pending or threatened investigations or actions by environmental regulatory authorities or any pending or threatened claims relating to environmental conditions at FCP.

Asbestos-containing material ("ACM") is known to be present at FCP. The Company is also aware of the presence of polychlorinated biphenyls ("PCBs") in transformers at FCP and in storage containers in specified areas at FCP. The Company believes that it manages and requires the removal of ACMs and PCBs in accordance with applicable laws and that, if such laws do not become materially more stringent, the future costs of ACM abatement or ACM and PCB removal and containment will not be material to the financial position of the Company.

The Company will continue to make the necessary capital and operating expenditures to ensure that the Company is compliant with environmental laws and regulations. Although there can be no assurances, the Company does not believe that costs relating to environmental matters will have a materially adverse effect on the business, financial condition or results of operations. However, environmental laws and regulations can change and the Company may become subject to more stringent environmental laws and regulations in the future, which could have an adverse effect on the Company's business financial condition or results of operations.

OTHER RISKS AND UNCERTAINTIES

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 market in which we operate), the attractiveness of the property 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. The Company is subject to debt, which requires significant debt service payments. If we are unable or unwilling to meet mortgage payments, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

Real estate is relatively illiquid. Such illiquidity may limit our ability to respond promptly to changing economic or investment conditions. Also, financial difficulties of other property owners resulting in distressed sales could depress real estate values in the market in which we operate.

The Company generates a relatively stable source of income from contractual tenant rental payments. Continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies.

While the outlook for commercial office rents is positive in the long term, 2009 may not provide the same level of increases in rental rates on renewal as compared to previous years. The Company is, however, substantially protected against short-term market conditions, as most of the Company's leases are long-term in nature with an average term of 7.6 years. A protracted disruption in the economy, such as the onset of a severe recession, could place downward pressure on overall occupancy levels and net effective rents.

The Company has insurance covering certain acts of terrorism for up to $1.0 billion of damage and resulting business interruption costs. The Company 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 Company.

PART IV – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company adopted the CICA issued Handbook Section 1535, "Capital Disclosures." Section 1535 requires the disclosure of (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance. The Company adopted the requirements of Section 1535 on January 1, 2008 and the required disclosures are included in Note 17 of the financial statements.

Financial Instruments – Disclosures and Presentation

Effective January 1, 2008, the Company adopted the two CICA issued Handbook Sections 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation." These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation" and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. Certain disclosures required under Section 3862 were made in the notes to the annual financial statements for the year ended December 31, 2007. Additional disclosures required by Section 3862 have been made to the financial statements. The adoption of Section 3863 did not have any impact on the Company's financial statements.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section 3064 will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal years beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

Impact of adopting Section 3064

Effective January 1, 2009, the Company adopted the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 replaces Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs." Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill are unchanged from those included in the previous Section 3062. In addition, various changes have been made to other sections of the CICA Handbook for consistency purposes. As a result of the related amendments to Section 1000, "Financial Statement Concepts," any expenses deferred pursuant to previously existing "matching" concepts and which do not otherwise meet the definition of an asset, are no longer eligible for capitalization as an asset. The Company adopted the new standards relating to Section 3064 on January 1, 2009, retrospectively with restatement. The comparative figures have been reclassified as follows:

December 31 (Thousands)		2008
Retained earnings		
Opening balance at January 1, 2008 as previously reported	$	(290,329)
Cumulative impact of changes in accounting policy, net of taxes of $0.5 million[1]		(1,205)
Opening balance at January 1, 2008 – as restated		**(291,534)**
Ending balance at December 31, 2008 as previously reported	$	(297,969)
Cumulative impact of changes in accounting policy[2]		(872)
Ending balance at December 31, 2008 – as restated		**(298,841)**

[1] A decrease of $1.2 million to opening retained earnings, representing changes to recoverable capital expenditures prior to January 1, 2008 that do not qualify as an asset under Handbook Section 3064.

[2] Subsequent to January 1, 2008, an increase of $0.08 million to retained earnings (net of taxes of $0.03 million), representing a reduction of $0.1 million in depreciation and amortization, was recorded as a result of adopting Handbook Section 3064, for the quarter ended March 31, 2008. Subsequent to March 31, 2008, an increase of $0.2 million to retained earnings (net of taxes of $0.1 million), representing a decrease of $0.3 million to operating expenses, was recorded during the period ended December 31, 2008.

December 31 (Thousands)		2008
Rental property		
Balance at December 31, 2008 as previously reported	$	240,405
Cumulative impact of changes in accounting policy[(1)]		(1,228)
Balance at December 31, 2008 – as restated		**239,177**
Future income taxes		
Balance at December 31, 2008 as previously reported	$	23,890
Cumulative impact of changes in accounting policy[(1)]		356
Balance at December 31, 2008 – as restated		**24,246**

(1) A total decrease of $0.9 million was recorded as a result of adopting Handbook Section 3064.

FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. The date is for interim and annual financial statements relating to the fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS as new standard changes are introduced over the transitional period.

USE OF ESTIMATES

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires estimates and assumptions that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Significant estimates are required in the determination of future cash flows and probabilities in assessing net recoverable amounts and net realizable value, depreciation and amortization, the Company's ability to utilize tax losses, carrying value of the participating loan and fair value for disclosure purposes.

RELATED-PARTY TRANSACTIONS

In the normal course of operations, we enter into various transactions on market terms with related parties which have been measured at exchange value and are recognized in the consolidated financial statements.

Related-party amounts included as expenses in the Statements of Revenue and Expenditures and Comprehensive Loss:

	Three months ended March 31			
(Thousands)		**2009**		2008
Property Management Agreement with BP(PI)I				
Property management fee	**$**	**667**	$	664
Leasing fees		**50**		50
General contracting fees		**95**		41
Administrative costs paid to BP(PI)I		**128**		117
Interest payable to 2072790 Ontario Inc.		**3,968**		6,367
Asset management fee paid to a wholly-owned subsidiary of BPO Properties Ltd.		**439**		442

These transactions have been measured at exchange value and are recognized in the financial statements.

Bryan K. Davis
Senior Vice President and Chief Financial Officer
May 21, 2009