FIRST PLACE TOWER
BROOKFIELD PROPERTIES INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2008

Auditors' Report

To the Shareholder of First Place Tower Brookfield Properties Inc.:

We have audited the balance sheets of First Place Tower Brookfield Properties Inc. as at December 31, 2008 and 2007 and the statements of revenue and expenditures and comprehensive loss, changes in shareholder's deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 6, 2009

Balance Sheets

December 31 (Thousands)	Notes		2008		2007
Assets					
Rental property	6	**$**	**240,405**	$	241,505
Due from related parties	7		**9,769**		13,103
Future income taxes	8		**23,890**		20,277
Other assets	9		**31,332**		32,109
Cash	10		**10,488**		4,075
		$	**315,884**	$	311,069
Liabilities					
Secured and unsecured indebtedness	11	**$**	**240,179**	$	248,596
Due to related parties	7		**299,801**		278,433
Accounts payable and accrued charges			**15,761**		16,257
			555,741		543,286
Shareholder's deficiency					
Share capital	12		**58,112**		58,112
Deficit			**(297,969)**		(290,329)
			(239,857)		(232,217)
		$	**315,884**	$	311,069

See accompanying notes to the financial statements

On behalf of the board,

George Craig Coleman
Director

Thomas F. Farley
Director

Statements of Revenue and Expenditures and Comprehensive Loss

December 31 (Thousands)	Notes		2008		2007
Revenues					
Rents and recoveries		$	**144,464**	$	139,627
Expenses					
Rental property operating expenses and taxes			**77,383**		76,573
Ground rent and entitlements	13		**18,717**		16,716
Financing expense			**41,290**		49,599
Depreciation and amortization			**16,201**		13,604
General and administrative expenses			**2,126**		1,940
			155,717		158,432
Loss before income taxes			**(11,253)**		(18,805)
Future income tax recovery	14		**3,613**		4,556
Net loss and comprehensive loss		**$**	**(7,640)**	**$**	(14,249)

See accompanying notes to the financial statements

Statements of Changes in Shareholder's Deficiency

December 31 (Thousands)		2008		2007
Deficit, beginning of year	**$**	**(290,329)**	$	(276,080)
Net loss		**(7,640)**		(14,249)
Deficit, end of year		**(297,969)**		(290,329)
Accumulated other comprehensive income ("AOCI")		**—**		—
Deficit and AOCI, end of year	**$**	**(297,969)**	$	(290,329)

See accompanying notes to the financial statements

Statements of Cash Flows

December 31 (Thousands)	Notes	2008	2007
Operating activities			
Net loss		**$ (7,640)**	$ (14,249)
Add (deduct) non-cash items:			
Depreciation and amortization		**16,201**	13,604
Amortization of deferred financing costs		**612**	587
Future income tax recovery		**(3,613)**	(4,556)
Interest payable to 2072790 Ontario Inc.		**21,535**	29,274
Net change in operating assets and liabilities		**439**	(1,781)
Tenant inducements and leasing costs		**(2,786)**	(4,634)
Recoverable expenditures		**(8,163)**	(9,341)
Cash flows provided by operating activities		**16,585**	8,904
Investing activities			
Expenditures on rental property		**(4,310)**	(47)
Decrease (increase) in amounts due from related parties		**3,334**	(203)
Cash flows used in investing activities		**(976)**	(250)
Financing activities			
Repayment of secured and unsecured indebtedness	11	**(9,029)**	(8,318)
Decrease in amounts due to related parties		**(167)**	(43)
Cash flows used in financing activities		**(9,196)**	(8,361)
Increase in cash during the year		**6,413**	293
Cash, beginning of year		**4,075**	3,782
Cash, end of year		**$ 10,488**	$ 4,075
Supplementary information:			
Interest paid in cash		**$ 19,519**	$ 20,204
Income taxes paid in cash		**$ 528**	$ 431

See accompanying notes to the financial statements

Notes to the Financial Statements

December 31, 2008

(all tabular amounts stated in thousands of dollars)

1. REORGANIZATION AND BASIS OF PRESENTATION

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. (the "Consortium"), 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 First Place Tower Brookfield Properties Inc. ("FPTBPI" or the "Company"). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

(a) Entitlements of other FCP land owner

The FCP land owners have an entitlement to certain amounts of the annual gross receipts, after operating expenses, from FCP which are distributed each year in a specific order of priority (Note 5). Amounts in respect of the other FCP land owner are reflected as ground rent and entitlements expense in the statement of revenues and expenditures and comprehensive loss.

(b) Rental property

Rental property includes land, building and improvements. Land and buildings are carried at the cost established when the Company was formed in 1995, plus land transfer taxes and subsequent additions at cost. The 1995 value was based on an independent appraisal dated June 1, 1995. Depreciation is recorded using the straight-line method over the estimated 60-year life of the building, with 50% of the building being depreciated over a shorter life to take into account the potential land lease expiration in 2023 (Notes 5 and 6). Major replacements and repairs are capitalized in the accounts and amortized, over their expected useful lives, up to ten years.

(c) Deferred costs

Deferred costs include the following:

- Deferred leasing costs, which include leasing fees and costs and deferred leasing costs acquired. Deferred leasing costs are amortized on a straight line basis over the term of the applicable lease to amortization expense;
- Tenant improvements, in which lease agreements generally provide for payments by the landlord to the tenant in the form of tenant improvement allowances, are amounts paid by the Company pursuant to such lease provisions and are characterized as either the purchase of tenant improvements owned by the landlord, or tenant inducements. When the payment is determined to be for tenant improvements owned by the Company, then the improvements are accounted for as an addition to commercial property and depreciated over their estimated useful life. If the Company determines that it is not the owner of the tenant improvements, then the property subject to the lease is the unimproved space and any payments made to the tenant under the lease are treated as tenant inducements, which reduce revenue over the term of the lease;

(d) Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company uses a two-step process to determine if impairment in the value of a long-lived asset has occurred. If it is determined that the net recoverable amount of a long-lived asset is less than its carrying value, the long-lived asset is written down to its fair value. Net recoverable amount represents the undiscounted estimated future cash flow expected to be earned from the long-lived asset.

(e) Revenue recognition

The Company has retained substantially all of the risks and benefits of ownership of its commercial properties and therefore accounts for leases with its tenants as operating leases. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable, is recorded for the difference between the rental revenue recorded and the contractual amount received. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(f) Income taxes

The company accounts for income taxes under the liability method. Under this method, future income tax assets and liabilities are calculated based on: (i) the temporary differences between the carrying values and the tax bases of assets and liabilities, and (ii) unused income tax losses, measured using substantively enacted income tax rates and laws that are expected to apply in the future as temporary differences reverse and income tax losses are used.

(g) Reporting currency and foreign currency translation

The financial statements have been presented in Canadian dollars as the company's principal investments and cash flow are influenced primarily by the Canadian dollar.

(h) 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 and fair value for disclosure purposes.

3. CHANGES IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (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 18 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.

4. FUTURE ACCOUNTING POLICY CHANGES

Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard, Section 3064, "Goodwill and Intangible Assets." Section 3064 replaces Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs." The section 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. Various changes have been made to other sections of the CICA Handbook for consistency purposes. As a result of related amendments to Section 100, "Financial Statement Concepts," any expenses deferred pursuant to previously existing "matching" concepts and which do not otherwise meet the definition of an asset, will no longer be eligible for capitalization as an asset. The new section and related amendments 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 fiscal year beginning January 1, 2009. Consistent with transition provisions in Section 3064, the Company will adopt the standards retrospectively with restatement. The Company is still assessing the impact of the adoption of this standard but expects that the effect of adopting Section 3064 and its related amendments will be a reduction in commercial properties with a corresponding charge against retained earnings.

5. LAND LEASE

FCP is subject to a land lease in respect of 50% of the land on which the property stands.

The FCP land lease will expire on December 31, 2023 subject to extension under certain circumstances (as described below). At the expiry of the land lease, the other FCP land owner has the option to acquire a 50% interest in FCP for a nominal amount.

The land lease provides that the gross receipts (revenues) of FCP are to be distributed each year in a specific order of priority. The order of priority for the annual entitlements is as follows:

(a) operating costs - annual property operating costs including capital expenditures, tenant allowances and leasing costs.

(b) amortization of the construction amount - an amount allocated to the Company calculated based on an annual blended payment of principal and interest on the construction amount. This amortized payment is recalculated each year using the Average Interest Rate ("AIR") and a period commencing on January 1 of the year of calculation and ending on December 31, 2023. The AIR fluctuates periodically and is based on a formula in the land lease. The AIR for the year ended December 31, 2008 was 4.85% (December 31, 2007 – 4.85%).

(c) ground rents - annual ground rents on a pari passu basis as to 50% to the other FCP land owner and a corresponding 50% payment to the Company. Ground rents are adjusted when the AIR is below 9%.

(d) amortization of additional amounts - an amount allocated to the Company calculated based on annual blended payments of principal and interest on funds advanced for certain cost overruns. The amortized payments are recalculated each year using the AIR plus 1% and a period commencing on January 1 of the year of calculation and ending on December 31, 2023.

(e) recovery of additional funding - an amount allocated to the Company and the other FCP land owner on a pari passu basis representing their entitlements with respect to funds advanced to cover cash flow shortfalls resulting from deficiencies in prior years. All future annual gross receipts, after satisfaction of entitlements (a) to (d) above, will be allocated to satisfy the entitlements remaining under this level until the Company and the other FCP land owner are satisfied in full. The balance of any remaining entitlements will accrue interest at the AIR, compounded annually. All allocations under this level of entitlement were satisfied in 2003.

(f) earnings participation - a fixed non-cumulative annual amount allocated to the other FCP land owner, of $887,500.

(g) recovery of the capital tax amount - an amount allocated to the Company representing Ontario capital tax computed upon an amount deemed to have been borrowed to finance the costs of construction of FCP. For this purpose, in each year, capital tax amounts are calculated based upon a notional amount of capital which decreases over the term of the land lease by the same percentage as the maximum capital cost allowance permitted under the Income Tax Act (Canada). All future annual gross receipts, after satisfaction of entitlements (a) to (f) above, will be allocated to satisfy the remaining capital tax entitlement of the Company until it is received in full and any remaining amounts will accrue interest at the AIR plus 1% compounded annually.

(h) remaining gross receipts - any remaining gross receipts will be allocated 50% to the Company and 50% to the other FCP land owner.

Entitlements of the other FCP land owner are included as ground rent and entitlements in the statements of revenue and expenditures and comprehensive loss.

Changes during the year in the Company's entitlement balances are set out below:

December 31 (Thousands)		**2008**		2007
Unamortized principal balance of the construction amount (b)				
Beginning of year	**$**	**139,595**	$	145,293
Interest		**6,496**		6,771
Repayments		**(12,469)**		(12,469)
	$	**133,622**	$	139,595
Unamortized principal balance of additional amounts (d)				
Beginning of year	**$**	**16,468**	$	17,081
Interest		**922**		958
Repayments		**(1,571)**		(1,571)
	$	**15,819**	$	16,468
Accumulated capital tax amount (g)				
Beginning of year	**$**	**—**	$	—
Interest		**—**		—
Capital tax		**128**		135
Repayments		**(128)**		(135)
	$	**—**	$	—

If all of the outstanding entitlements in respect of levels (b), (d) and (g) above have been recovered as of December 31, 2023, the land lease will expire and the other FCP land owner will have the option to acquire, for a nominal amount, an undivided 50% beneficial interest in the office tower, retail complex and the podium. 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 AIR used in the calculation of the annual amortization at levels (b) and (d), the amount at level (c) and the remaining balances at levels (e) and (g) is calculated in accordance with the terms of the land lease and was fixed at 4.85% for the three years ending December 31, 2009.

6. RENTAL PROPERTY

The rental property is comprised as follows:

December 31 (Thousands)		**2008**										2007
		Cost		**Accumulated Depreciation and Amortization**		**Net Book Value**		Cost		Accumulated Depreciation and Amortization		Net Book Value
Land	**$**	**37,600**	**$**	**—**	**$**	**37,600**	$	37,600	$	—	$	37,600
Building		**251,255**		**89,426**		**161,829**		246,688		82,036		164,652
Tenant improvements and leasing costs		**22,396**		**10,089**		**12,307**		22,171		9,259		12,912
Major replacements and repairs		**45,923**		**17,254**		**28,669**		43,139		16,798		26,341
	$	**357,174**	**$**	**116,769**	**$**	**240,405**	$	349,598	$	108,093	$	241,505

As of December 31, 2008, the net book value of the rental property was approximately $240.4 million (December 31, 2007 - $241.5 million) and is situated on a land lease that expires on December 31, 2023, subject to the requirements of satisfying the accrued entitlements (Note 5). At that time, assuming the other FCP land owner exercises its option to purchase for nominal consideration, the office tower, retail complex and podium, the property will be co-owned by the FCP land owners in amounts equal to their respective undivided ownership interest in the FCP lands.

7. DUE FROM/TO RELATED PARTIES

Due from related parties consists of:

December 31 (Thousands)		2008		2007
Advances receivable from BP(PI)I, non interest bearing	$	9,769	$	12,900
Advances receivable from 2072790 Ontario Inc, non interest bearing		—		203
	$	9,769	$	13,103

Due to related parties consists of:

December 31 (Thousands)		2008		2007
Participating loan and accrued interest payable to 2072790 Ontario Inc. (a)	$	94,065	$	87,616
Promissory note payable to 2072790 Ontario Inc. (b)		157,000		157,000
Accrued interest payable to 2072790 Ontario Inc. (b)		44,718		29,632
Advances payable to 2072790 Ontario Inc., non-interest bearing		4,018		4,185
	$	299,801	$	278,433

(a) 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 Note 1, 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 year ended December 31, 2008 was accrued at a rate of 11.0% (December 31, 2007 - 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. No interest has been paid on the participating loan since December 2005.

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 10.0% 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 year ended December 31, 2008 was $94.1 million (December 31, 2007 - $87.6 million). The total interest expense related to this liability for the year ended December 31, 2008 was $6.4 million (December 31, 2007 – $14.7 million).

(b) Promissory note payable to 2072790 Ontario Inc.

On October 21, 2005, in conjunction with the transactions described in Note 1, 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 total interest expense for the year ended December 31, 2008 was $15.1 million and $14.6 million for the year ended December 31, 2007. Interest has not been paid since December 2005. 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.

Amounts due from/to related parties are classified as loans and receivables, or as other financial liabilities under CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and are measured at amortized cost.

The fair value of secured and unsecured indebtedness is determined by discounting contractual principal and interest payments at estimated current market interest rates for the instrument. Current market interest rates are determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at December 31, 2008, the fair market value of the participating loan (a) exceeds the book value of this obligation by $4.4 million (December 31, 2007 - $7.7 million) and the fair market value of the promissory note (b) approximates its book value (December 31, 2007 - $2.9 million in excess of book value).

Credit risk related to amounts due from related parties arises from the possibility that related parties may be unable to fulfill their obligations. The risk of default is minimal given the related parties are affiliate companies of FCP.

Financing risk arises when related parties will not refinance maturing debt on terms and conditions acceptable to the Company, or on any terms at all. The refinancing risk is minimal given that the related party is the parent company of FCP.

8. FUTURE INCOME TAXES

Components of future income tax assets of the Company are as follows:

December 31 (Thousands)		2008		2007
Future income tax assets related to:				
i) Non-capital losses	**$**	**20,549**	$	14,179
ii) Debt redemption and share issuance costs		**2,945**		3,370
iii) Difference in tax and book base of rental property and other assets, net		**396**		2,728
	$	**23,890**	$	20,277

9. OTHER ASSETS

December 31 (Thousands)		2008		2007
Accounts receivable	**$**	**28,146**	$	29,252
Prepaid expenses and deposits		**1,056**		727
Restricted cash		**2,130**		2,130
	$	**31,332**	$	32,109

Financial assets in other assets are classified as loans and receivables under CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement" and are measured at amortized cost.

Accounts receivable are generally short-term in trade nature. The carrying value of accounts receivable approximates fair value due to its short-term nature.

During the year ended December 31, 2008, the Company recorded $0.1 million (December 31, 2007 - $0.2 million) as a reserve against uncollectible accounts receivable, while $0.05 million (December 31, 2007 - $0.03 million) in uncollectible accounts receivable was written off during the year.

As of December 31, 2008, $0.06 million (December 31, 2007 - $0.04) in accounts receivable are over 90-days due.

Credit risk related to accounts receivable arises from the possibility that tenants may be unable to fulfill their lease commitments. The Company mitigates this risk by ensuring that its tenant mix is diversified by limiting its exposure to any one tenant, and ensuring the credit-worthiness of its tenants. Currently no one tenant represents more than 40.8% of total leasable area or 41.5% of accounts receivable. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings.

The following table summarizes tenants with more than 10% of the total leasable area:

Tenant	Area Leased (Square Feet)	Percentage of Total Leasable Area
1. Bank of Montreal/Nesbitt Burns	1,066,000	40.8%
2. Osler, Hoskin & Harcourt	270,000	10.3%
Total	**1,336,000**	**51.1%**

Cash is considered restricted when it is subject to contingent rights of third parties. As at December 31, 2008, restricted cash consists of $2.1 million (December 31, 2007 - $2.1 million) of cash held in trust pursuant to the trust indenture governing the First Mortgage Bonds.

10. CASH

Cash is classified as held-for-trading under CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Due to their short term nature, carrying value approximates fair value.

Included in cash is $9.2 million (December 31, 2007 - $4.0 million) held for use in the building's operations.

For the year ended December 31, 2008, interest income of $0.3 million (December 31, 2007 - $0.4 million) was recorded on cash.

11. SECURED AND UNSECURED INDEBTEDNESS

December 31 (Thousands)		2008		2007
8.06% First Mortgage Bonds (a)	**$**	**239,062**	$	247,452
Unsecured indebtedness (b)		**1,117**		1,144
	$	**240,179**	$	248,596

(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.

Included in the 8.06% First Mortgage Bonds are $0.6 million of net deferred financing costs (December 31, 2007 - $1.2 million).

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

December 31 (Thousands)		2008
2009		**239,699**
Deferred financing costs		**(637)**
	$	**239,062**

(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 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 discounting contractual principal and interest payments at estimated current market interest rates for the instrument. Current market interest rates are determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at December 31, 2008, the fair market value of secured indebtedness (a) exceeds the book value of this obligation by $8.3 million (December 31, 2007 - $11.4 million) and the fair market value of the unsecured indebtedness (b) exceeds the book value of this obligation by $0.3 million (December 31, 2007 - $0.4 million).

For the year ended December 31, 2008, interest expense of $19.5 million for both secured and unsecured indebtedness (December 31, 2007 - $20.1 million) was recorded.

The Company has debt totaling $230.0 million maturing in the fourth quarter of 2009, representing 48.5% of the Company's total debt outstanding at December 31, 2008. Management is currently working on refinancing the debt. In addition, the Company has a related party participating loan totaling $76.1 million as well $18 million for the expected payout on the participation feature on the loan, maturing in December 2009. The Company has the ability to extend the maturity date of this loan with the approval from the shareholders of 2072790 Ontario Inc.

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

12. SHARE CAPITAL

The components of shareholder's deficiency are as follows:

December 31 (Thousands)		2008		2007
Common shares	**$**	**58,112**	$	58,112
Deficit		**(297,969)**		(290,329)
	$	**(239,857)**	$	(232,217)

Authorized share capital consists of an unlimited number of common shares.

There are 58,112,022 common shares outstanding at December 31, 2008 (December 31, 2007 – 58,112,022) of the Company all of which are owned by 2072790 Ontario Inc.

13. GROUND RENT AND ENTITLEMENTS

The land lease provides that the gross receipts, after operating costs, of FCP are to be distributed to the owners in a specific order of priority as described in Note 5. Entitlements to FCP's gross receipts under the land lease consist of various levels, whereby the entitlements under each prior level must be met before payments are made with respect to the next level in any given year. The entitlements of the other FCP land owner are included in these financial statements as ground rent and entitlements expense.

The amounts of the other land owner's entitlements are as follows:

December 31 (Thousands)		**2008**		2007
Ground rent Note 5(c)	**$**	**891**	$	891
Earnings participation Note 5(f)		**888**		888
Remaining gross receipts Note 5(h)		**16,938**		14,937
Ground rent and entitlements		**18,717**		16,716
Entitlements paid		**(16,530)**		(18,279)
Undistributed (excess distribution) of entitlement, beginning of period		**(1,478)**		85
Undistributed (excess distribution) of entitlements, end of period	**$**	**709**	$	(1,478)

14. INCOME TAX RECOVERY

A reconciliation between the income tax computed on pre-tax income at statutory rates and the actual provision, using the liability method, is as follows:

December 31 (Thousands)		**2008**		2007
Income taxes based on combined basic Canadian federal and provincial rate 29.0% (2007 – 29.0%)	**$**	**3,263**	$	5,453
Increase (decrease) in recovery resulting from:				
Reversal of prior year reserve		**1,100**		—
Tax rate change		**(750)**		(897)
Income tax recovery	**$**	**3,613**	$	4,556

15. RELATED PARTY TRANSACTIONS

The following related party amounts were included in the statements of revenue and expenditures and comprehensive loss:

December 31 (Thousands)		**2008**		2007
Property Management Agreement with BP(PI)I				
Property management fee	**$**	**2,664**	$	2,556
Leasing fees		**770**		492
General contracting fees		**542**		585
Administrative costs paid to BP(PI)I		**655**		542
Interest payable to 2072790 Ontario Inc.		**21,535**		29,274
Asset management fee paid to a wholly-owned subsidiary of BPO Properties Ltd.		**1,675**		1,553

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

16. ECONOMIC DEPENDENCE

Revenues from Bank of Montreal/Nesbitt Burns were as follows:

December 31 (Thousands)		**2008**		2007
Bank of Montreal/Nesbitt Burns	**$**	**52,321**	$	49,586
Percentage of total revenue		**36.2%**		35.7%

17. COMMITMENTS AND CONTINGENCIES

The Company has obligations as lessee under a long term land lease as described in Notes 5 and 13.

The Company is involved in litigation and claims which arise from time to time in the normal course of business. In the opinion of management, none of these, individually or in aggregate, would result in a liability that would have a significant adverse effect on the financial position of the Company.

18. CAPITAL MANAGEMENT AND LIQUIDITY

The Company employs a broad range of financing strategies to facilitate growth and manage financial risk.

The Company continually strives to reduce its weighted average cost of capital and improve shareholder's equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at December 31, 2008, the Company's weighted average cost of capital, assuming a 12.0% return on equity, was 6.1%. The following schedule details the components of the Company's capital as at December 31, 2008 and the related costs thereof:

December 31 (Thousands)	Cost of Capital[1] 2008	Cost of Capital[1] 2007	Underlying Value[2] 2008	Underlying Value[2] 2007
Liabilities				
Amounts due to related parties and other indebtedness[3]	**7.6%**	7.7%	**$ 473,916**	$ 488,845
Shareholder's equity				
Common shares	**12.0%**	12.0%	**58,112**	58,112
Total[4]	**6.1%**	6.1%	**$ 532,028**	$ 546,957

[1] As a percentage of average book value.

[2] Underlying value of liabilities represents the cost to retire on maturity. Underlying value of shareholder's equity is based on the book value of the Company's common shares.

[3] Amounts due to related parties and other indebtedness include: the participating loan payable to 2072790 Ontario Inc., the promissory note payable to 2072790 Ontario Inc., and secured and unsecured indebtedness.

[4] In calculating the weighted average cost of capital, the cost of debt has been tax-effected.

The Company's amounts due to related parties and other indebtedness which include: the participating loan payable to 2072790 Ontario Inc., the promissory note payable to 2072790 Ontario Inc., and the secured and unsecured indebtedness, are fixed-rate and non-recourse to the Company, thereby reducing the overall financial risk to the Company.

Management believes the Company's liquidity needs will be satisfied using cash on hand, cash flows generated from operating activities, and financings from external and related parties. Rental revenue, recoveries from tenants, available cash balances, draws on credit facilities and refinancing of maturing indebtedness are the Company's principal sources of capital used to pay operating expenses, debt service and recurring capital and leasing costs in its rental property portfolio. Management believes the Company's revenue along with proceeds from financing activities will continue to provide the necessary funds for its short-term liquidity needs.

The principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities and non-recurring capital expenditures. Management plans to meet these needs with one or more of the following:

- income from operations; and
- financing

The following table presents the contractual maturities of the Company's financial liabilities.

Debt repayment obligations at December 31, 2008 were as follows:

	Maturing debt (in thousands of dollars)						
Year ending December 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	9,742	229,957		76,100		315,799	35,305
2010						—	12,699
2011						—	12,699
2012						—	12,699
Thereafter			1,117		157,000	158,117	35,644
	$ 9,742	$ 229,957	$ 1,117	$ 76,100	$ 157,000	$ 473,916	$ 109,046

[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 $0.6 million of deferred financing costs.