BPO PROPERTIES

SECOND QUARTER REPORT
JUNE 30, 2008

Dear Shareholders:

Net income from continuing operations for the three months ended June 30, 2008 was $17.8 million ($0.49 per share) compared to $15.8 million ($0.40 per share) during the same period in 2007. The increase in the quarter is primarily attributable to the continual increase in same property net operating income from our core properties portfolio and higher loan interest income. Net income for the three months ended June 30, 2008 was $17.8 million ($0.49 per share) compared to $21.1 million ($0.59 per share) during the same period in 2007. The prior period included a net gain of $4.9 million ($0.14 per share) for the three months ended June 30, 2007 on the sale of a non-core property in Toronto.

Funds from continuing operations was $38.6 million ($1.22 per share) for the three months ended June 30, 2008 compared to $38.3 million ($1.19 per share) during the same period in 2007.

BPO Properties' revenues from continuing operations for the three months ended June 30, 2008 was $86.4 million compared to $83.3 million during the same period in 2007. Commercial property net operating income from continuing operations for the three months ended June 30, 2008 was $48.8 million, consistent with the same period in 2007.

MAJOR TRANSACTIONS

We advanced developments under construction which are 72% leased in aggregate. In Toronto, the 1.2 million square foot Bay Adelaide Centre West Tower continues on budget and on schedule. The concrete core has topped out, the structural steel is erected up to the 36th floor, and the installation of the curtain wall is up to the 33rd floor. Total pre-leasing at Bay Adelaide Centre West Tower stands at 65%.

In Calgary, the 265,000 square foot Bankers Court project structure is now complete to the 12th floor slab with three further floors to be poured. Base building mechanical and electrical work is progressing as scheduled throughout the parkade and lower floors, and the curtain wall is installed to the 7th floor. The building is 100% pre-leased and is expected to be completed in the first quarter of 2009.

We obtained new financing for our loan at Hudson's Bay Centre in Toronto for $110.0 million. This loan is interest only for the first two years and bears interest at 5.20% per annum and matures in May 2013. This loan generated net proceeds of $10.0 million after repayment of the previous loan of $100.0 million.

We obtained permanent financing for Royal Centre in Vancouver for $122.0 million. This loan bears interest at 4.956% per annum and matures in May 2012. The previous bridge facility of $132.0 million was fully repaid.

We also completed permanent financing for three of our properties, totaling $122.4 million on a 100% basis, during the second quarter of 2008. The properties include 2 Queen Street East in Toronto, Altius Centre in Calgary and Canadian Western Bank Place in Edmonton. These loans are interest only and bears interest at 5.639% per annum and mature in December 2017. In connection with these financings, one of the Company's joint venture partners, who has an interest in these properties, repaid the full outstanding balance of the Company's loan receivable in the amount of $41.8 million during the second quarter of 2008.

OPERATIONS REVIEW

BPO Properties continued its pro-active leasing strategy in the second quarter of 2008, capitalizing on positive market conditions to increase occupancy and rental rates throughout the portfolio. During the quarter, BPO Properties leased 550,000 square feet of space, at an average net rent of $34 per square foot. The Company reported a portfolio wide leased rate of 98.6% at the end of the second quarter of 2008, compared to a Canadian national average of 94.1%. Highlights include:

- **249,000 square feet in Toronto**
  - Ten-year lease with Credit Suisse Securities (Canada) at First Canadian Place for 31,000 square feet
  - Seven-year lease renewal with Bennett Jones at First Canadian Place for 145,000 square feet
  - One-year lease with Brookfield Properties Services at Queen's Quay Terminal for 10,000 square feet
- **214,000 square feet in Calgary**
  - Average eight-year lease and renewal with Crescent Point General Partner Corp. at Petro-Canada Centre for 140,000 square feet
  - Average four-year lease with Enbridge Inc. at Fifth Avenue Place for 45,000 square feet
  - Six-year lease with Insignia Energy Inc. at Altius Centre for 10,000 square feet
- **31,000 square feet in Edmonton**
  - 10-year lease with Canadian Western Bank at Canadian Western Bank Place for 14,000 square feet
  - Seven-year lease and renewal with Daye & Co. at Canadian Western Bank Place for 10,000 square feet
- **56,000 square feet in Other Markets**
  - Five-year lease renewal with Public Works and Government Services Canada at Place de Ville I in Ottawa for 32,000 square feet

DIVIDEND DECLARATION

The Board of Directors of BPO Properties declared a quarterly common share dividend of $0.15 per share, payable on September 30, 2008 to shareholders of record at the close of business on September 1, 2008. The Board of Directors also declared dividends on series G, J and M preferred shares, payable November 14, 2008 to shareholders of record at the close of business on October 31, 2008, for the period August 14, 2008 to November 13, 2008. The dividend per preferred share is to be computed in accordance with the terms of the shares.

OUTLOOK

We had an extremely active quarter from a leasing perspective in our two biggest markets, Toronto and Calgary, and we continue to make significant progress on our two developments in those cities.

Thomas F. Farley
President and Chief Executive Officer
August 5, 2008

Portfolio by City

BPO Properties Ltd., one of North America's largest commercial real estate companies, owns, develops and manages premier office properties. Our commercial property portfolio comprises 27 commercial properties totaling 18.1 million square feet, including 3.3 million square feet of parking. Our development portfolio consists of eight development properties totaling over five million square feet in the downtown cores of Toronto, Calgary and Ottawa. Landmark properties include First Canadian Place in Toronto and Bankers Hall in Calgary.

COMMERCIAL

	Number of Properties	Leased %	Office 000's Sq. Ft.	Retail 000's Sq. Ft.	Parking 000's Sq. Ft.	Leasable Area 000's Sq. Ft.	Effective Ownership Interest %	BPO's Effective Interest 000's Sq. Ft.
TORONTO								
First Canadian Place	1	96.9%	2,379	232	170	2,781	25%	695
Exchange Tower	1	96.4%	963	66	131	1,160	50%	580
Hudson's Bay Centre	1	95.8%	536	261	295	1,092	100%	1,092
2 Queen St. E.	1	98.6%	448	16	81	545	25%	136
Queen's Quay Terminal	1	97.6%	429	75	—	504	100%	504
151 Yonge St.	1	94.7%	289	10	72	371	25%	93
105 Adelaide St. West	1	100.0%	176	7	49	232	100%	232
HSBC Building	1	100.0%	188	6	31	225	100%	225
20-22 Front St. West	1	99.2%	136	8	—	144	100%	144
	9	97.0%	5,544	681	829	7,054		3,701
OTTAWA								
Place de Ville I	2	99.8%	569	18	502	1,089	25%	272
Place de Ville II	2	99.3%	591	19	433	1,043	25%	261
Jean Edmonds Towers	2	100.0%	540	13	95	648	25%	162
	6	99.7%	1,700	50	1,030	2,780		695
CALGARY								
Bankers Hall	3	99.8%	1,944	224	525	2,693	50%	1,347
Petro-Canada Centre	2	100.0%	1,708	24	220	1,952	50%	976
Fifth Avenue Place	2	100.0%	1,430	45	206	1,681	50%	841
Altius Centre	1	100.0%	303	3	72	378	25%	95
	8	99.9%	5,385	296	1,023	6,704		3,259
EDMONTON								
Canadian Western Bank Place	1	99.8%	371	36	91	498	25%	125
Enbridge Tower	1	100.0%	179	4	30	213	25%	53
	2	99.8%	550	40	121	711		178
VANCOUVER								
Royal Centre	1	97.4%	494	95	264	853	100%	853
OTHER								
Merivale Place, Nepean	1	100.0%	—	3	—	3	100%	3
TOTAL COMMERCIAL	27	98.6%	13,673	1,165	3,267	18,105	—	8,689

DEVELOPMENT

	Number of Properties	Number of Sites	Leasable Area 000's Sq. Ft.	Effective Ownership Interest %	BPO's Effective Interest 000's Sq. Ft.
TORONTO					
Bay Adelaide Centre	3	1	2,600	100%	2,600
Brookfield Place III	1	1	800	65%	520
	4	2	3,400		3,120
OTTAWA					
Place de Ville III	1	1	577	25%	144
	1	1	577		144
CALGARY					
Herald Block	1	1	1,200	100%	1,200
Bankers Court	2	1	500	50%	250
	3	2	1,700		1,450
TOTAL DEVELOPMENT	8	5	5,677		4,714

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FORWARD-LOOKING STATEMENTS

This interim report to shareholders 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 BPO Properties. 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 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 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 properties; timely leasing of newly developed properties and re-leasing of occupied square footage upon expiration; dependence on tenants' financial condition; the uncertainties of real estate development and acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; the impact of newly adopted accounting principles on the Company's accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the documents filed by the Company with the securities regulators in Canada including in the Annual Information Form under the heading "Business of BPO Properties – Company and Real Estate Industry Risks." 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 securities 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 June 30, 2008 includes material information up to August 5, 2008. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with non-GAAP measures such as net operating income and funds from operations being reconciled to appropriate Canadian GAAP measures. All dollar references, unless otherwise stated, are in millions of Canadian dollars except per share amounts. Amounts in U.S. dollars are identified as "US$".

The following discussion and analysis is intended to provide readers with an assessment of the performance of BPO Properties Ltd. ("BPO Properties" or "the Company") during the second quarter over the past two years as well as our financial position and future prospects. It should be read in conjunction with the consolidated interim financial statements and appended notes, which begin on page 32 of this report. In our discussion of operating performance, we refer to net operating income and funds from operations on a total and per-share basis. Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration, depreciation and amortization and income tax expenses. Funds from operations is defined as net income prior to extraordinary items, non-cash items and depreciation and amortization. We use net operating income and funds from operations to assess the operating results of the Company. Net operating income is an important measure in assessing operating performance and funds from operations is a relevant measure in analyzing real estate, as commercial properties generally appreciate rather than depreciate. We provide the components of net operating income and a full reconciliation from net income to funds from operations on page 22. Net operating income and funds from operations are both non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies.

Additional information, including our Annual Information Form, is available on our Web site at www.bpoproperties.com or at www.sedar.com.

OVERVIEW OF THE BUSINESS

BPO Properties is a publicly-traded Canadian commercial real estate company listed on the Toronto Stock Exchange under the symbol BPP. We own, develop and manage premier commercial office properties in select cities in Canada. At June 30, 2008, the book value of BPO Properties' assets was $2,224.7 million. During the second quarter of 2008, we generated $17.8 million of net income ($0.49 per common share) and $38.6 million of funds from operations ($1.22 per common share).

FINANCIAL HIGHLIGHTS

BPO Properties' financial results are as follows:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions, except per-share amounts)	2008	2007	2008	2007
Results of operations				
Net income	$ 17.8	$ 21.1	$ 35.1	$ 80.4
Net income per share	0.49	0.59	0.95	2.51
Common share dividends paid per share[1]	0.15	0.15	0.30	0.30
Funds from operations	38.6	41.3	76.0	78.5
Funds from operations per share	$ 1.22	$ 1.30	$ 2.38	$ 2.45

[1] *Excludes the special common share dividend of $7.25 per share in 2008.*

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Balance sheet data		
Total assets	$ 2,224.7	$ 2,235.7
Commercial properties	1,342.6	1,351.6
Commercial and development property debt	1,109.8	965.5
Shareholders' equity	852.5	1,040.5

COMMERCIAL PROPERTY OPERATIONS

Our strategy of owning, pro-actively managing and developing premier properties in high-growth, and in many instances supply constrained markets, with high barriers to entry has created one of Canada's most distinguished portfolios of office properties. Our commercial property portfolio consists of interests in 27 properties totaling 18.1 million square feet, including 3.3 million square feet of parking. Our development portfolio comprises five development sites totaling 5.7 million square feet. Our primary markets are the financial, energy and government sectors in the cities of Toronto, Ottawa, Calgary, Edmonton and Vancouver. We intend to continue our strategy of concentrating operations within a select number of gateway cities with attractive tenant bases in order to maintain a meaningful presence and build on the strength of our tenant relationships within these markets.

We remain focused on the following strategic priorities:

- Surfacing value from our properties through proactive leasing and select redevelopment initiatives;
- Prudent capital management including the refinancing of mature properties and investing in joint venture opportunities with institutional partners who seek to benefit from the depth of our expertise;
- Monetizing development assets as the economy rebounds and continued supply constraints create opportunities; and
- Expand our asset management platform through the establishment of new funds.

The following table summarizes our investment by market:

Region	Number of Properties	Leasable Area (000's Sq. Ft.)	BPO Properties' Owned Interest (000's Sq. Ft.)	Book Value (Millions)	Debt (Millions)	Net Book Equity (Millions)
Toronto, Ontario	9	7,054	3,701	$ 598.0	$ 361.2	$ 236.8
Ottawa, Ontario	6	2,780	695	101.0	25.1	75.9
Calgary, Alberta	8	6,704	3,259	513.4	365.3	148.1
Edmonton, Alberta	2	711	178	17.5	37.2	(19.7)
Vancouver, B.C.	1	853	853	110.7	121.2	(10.5)
Other	1	3	3	2.0	—	2.0
Continuing operations	27	18,105	8,689	1,342.6	910.0	432.6
Office developments	8	5,677	4,714	577.4	199.8	377.6
Total	35	23,782	13,403	$ 1,920.0	$ 1,109.8	$ 810.2

We have historically explored property-level joint venture opportunities with strategic institutional partners. Although we plan to continue with this endeavor, we are also pursuing the acquisition of individual assets and portfolios through joint venture fund vehicles. In 2005, we formed our Canadian Office Fund (the "Fund") to acquire the O&Y portfolio. Of our 27 properties, seven are wholly owned, eight are held in property-level joint ventures or co-tenancies, and 12 were acquired through the O&Y portfolio. The Fund consists of a consortium of institutional investors, which we lead and manage. Affiliates of the consortium members own direct interests in property-level joint ventures and have entered into several agreements relating to property management, fees, transfer rights and other material issues related to the operation of the properties. We proportionately consolidate our interest in this Fund.

We believe that investing our liquidity with these partners in fund formats, enables us to enhance returns. The Fund and associated asset-management fees represent an important area of growth as we expand our assets under management. Purchasing properties or portfolios of properties in fund formats allows us to earn the following categories of fees:

- Asset Management — Stable base fee for providing regular, on-going services.
- Transaction — Development, redevelopment and leasing activities conducted on behalf of these funds.
- Performance — Earned when certain pre-determined benchmarks are exceeded. Performance fees which can add considerably to fee revenue, typically arise later in a fund's life cycle, and are therefore not fully reflected in current results.

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 500,000 square feet of space in the portfolio include Public Works and Government Services Canada, Bank of Montreal/Nesbitt Burns, Petro-Canada, Imperial Oil and Talisman Energy. A detailed list of major tenants is included in Part III ("Risks and Uncertainties") of this MD&A, beginning on page 26.

Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retenanting costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and although each market is

different, the majority of our leases, when signed, extend between five and 10-year terms. As a result of this strategy, approximately 11.8% of our leases mature annually over the next five years.

The following is a breakdown of lease maturities by region with associated expiring net rental rates:

	Total Portfolio			Toronto, Ontario			Ottawa, Ontario			Calgary, Alberta		
Year of Expiry	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]
Currently available	212	1.4		185	3.0		6	0.3		5	0.1	
Remainder 2008	210	1.4	$ 20	58	0.9	$ 28	43	2.5	$ 12	104	1.8	$ 19
2009	751	5.1	18	450	7.2	17	38	2.2	17	223	3.9	22
2010	1,019	6.9	24	490	7.9	26	3	0.2	37	350	6.2	26
2011	1,785	12.0	22	288	4.6	27	4	—	15	1,363	24.0	21
2012	1,382	9.3	26	804	12.9	25	6	0.3	31	480	8.4	31
2013	3,823	25.8	26	1,248	20.0	28	1,098	62.7	19	1,382	24.3	30
2014	281	1.9	31	144	2.3	29	9	0.5	25	99	1.7	40
2015 & beyond	5,375	36.2	23	2,558	41.2	23	543	31.1	15	1,675	29.6	31
Parking	3,267	—	—	829	—	—	1,030	—	—	1,023	—	—
	18,105	100.0		7,054	100.0		2,780	100.0		6,704	100.0	
Average market net rent			$ 31			$ 27			$ 21			$ 40

	Edmonton, Alberta			Vancouver, B.C.			Other		
Year of Expiry	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]	000's Sq. Ft.	%	Net Rent per Sq. Ft.[1]
Currently available	1	0.2		15	2.6		—	—	
Remainder 2008	1	0.2	$ 9	3	0.5	$ 22	1	33.3	$ 32
2009	18	3.1	10	22	26.0	20	—	—	—
2010	135	22.9	14	41	7.0	18	—	—	—
2011	57	9.7	13	73	12.4	24	—	—	—
2012	30	5.1	9	62	10.5	22	—	—	—
2013	9	1.5	21	84	14.3	22	2	66.7	32
2014	24	4.1	12	5	0.8	27	—	—	—
2015 & beyond	315	53.2	16	284	25.9	13	—	—	—
Parking	121	—	—	264	—	—	—	—	—
	711	100.0		853	100.0		3	100.0	
Average market net rent			$ 27			$ 30			$ 10

[1] *Net rent at expiration of lease.*

COMMERCIAL DEVELOPMENT

We hold interests in 5.7 million square feet of high-quality, centrally-located development sites at various stages of planning and construction. We will seek to monetize these sites through development only when our risk-adjusted return hurdles are met and when pre-leasing targets with one or more lead tenants have been achieved. We currently have two projects under development which are outlined on page 11 of this MD&A.

The following table summarizes our commercial development projects at June 30, 2008:

	Location	Number of Properties	Number of Sites	Ownership	Sq. Ft.
Toronto, Ontario					
Bay Adelaide Centre	Bay and Adelaide Streets	3	1	100%	2,600,000
Brookfield Place III	Third phase of Brookfield Place project	1	1	65%	800,000
Ottawa, Ontario					
Place de Ville III	Third phase of Place de Ville project	1	1	25%	577,000
Calgary, Alberta					
Herald Block	1st Street and 7th Avenue, within one block from our existing Calgary assets	1	1	100%	1,200,000
Bankers Court	East and West Parkades adjacent to Bankers Hall	2	1	50%	500,000
		8	5		5,677,000

PERFORMANCE MEASUREMENT

The key indicators by which we measure our performance are:

- Net income per share;
- Net operating income;
- Funds from operations per share;
- Overall indebtedness level;
- Weighted average cost of debt; and
- Occupancy levels.

Although we monitor and analyze our financial performance using a number of indicators, our primary business objective of generating reliable and growing cash flow is monitored and analyzed using net income, net operating income and funds from operations. While net income is calculated in accordance with generally accepted accounting principles ("GAAP'), net operating income and funds from operations are both non-GAAP financial measures that do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. We provide the components of net operating income and a full reconciliation from net income to funds from operations on page 22 of this MD&A.

Net Income

Net income is calculated in accordance with GAAP. Net income is used as a key indicator in assessing the profitability of the Company.

Net Operating Income

Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration, depreciation and amortization, and income tax expenses. Net operating income is used as a key indicator of performance as it represents a measure over which management has control. We measure the performance of management by comparing the performance of the property portfolio adjusted for the effect of current and prior-year sales and acquisitions.

Funds from Operations

Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, depreciation and amortization, income taxes, and certain other non-cash items. While we believe that funds from operations is the most relevant measure to analyze real estate as commercial properties generally appreciate rather than depreciate, we believe that funds from operations, net operating income, and net income are all relevant measures. We compute funds from operations substantially in accordance with the definition provided by the Real Property Association of Canada ("Real Pac"). Under this definition, funds from operations does not represent or approximate cash generated from operating activities determined in accordance with Canadian GAAP, and should not be considered as an alternative to GAAP measures. Accordingly, we provide a reconciliation of funds from operations to net income, consistent with the definition as set out above. A reconciliation is not provided to cash flow from operating activities, as it is often subject to fluctuations based on the timing of working capital payments.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing performance in terms of net income, net operating income, and funds from operations, we consider the following items to be important drivers of our current and anticipated financial performance:

- Increases in occupancies by leasing vacant space;
- Increases in rental rates as market conditions permit; and
- Reduction in occupancy costs through achieving economies of scale and diligently managing contracts.

We also believe that the key external performance drivers are:

- The availability of new property acquisitions which fit into our strategic plan; and
- The availability of capital at a cost and on terms conducive to our goals.

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was $2,224.7 million at June 30, 2008, compared with $2,235.7 million at December 31, 2007. The following is a summary of our assets:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Commercial properties	$ 1,342.6	$ 1,351.6
Commercial developments	577.4	452.5
Loans receivable	146.5	283.5
Intangible assets	35.4	40.2
Tenant receivables and other assets	71.3	66.0
Cash and cash equivalents	51.5	37.7
Assets related to discontinued operations	—	4.2
Total	$ 2,224.7	$ 2,235.7

COMMERCIAL PROPERTIES

The book value of our commercial properties from continuing operations was $1,342.6 million as at June 30, 2008, compared with $1,351.6 million at December 31, 2007. The decrease in commercial properties is primarily attributable to depreciation and amortization during the six months ended June 30, 2008. There were no commercial properties held for sale at June 30, 2008. The consolidated carrying value of our properties is approximately $155 per square foot, significantly less than the estimated replacement cost of these assets. A breakdown of our commercial properties by region is as follows:

Region	Leasable Area (000's Sq. Ft.)	BPO Properties' Owned Interest (000's Sq. Ft.)	Jun. 30, 2008 (Millions)	Dec. 31, 2007 (Millions)
Toronto, Ontario	7,054	3,701	$ 598.0	$ 603.9
Ottawa, Ontario	2,780	695	101.0	101.7
Calgary, Alberta	6,704	3,259	513.4	519.6
Edmonton, Alberta	711	178	17.5	17.6
Vancouver, B.C.	853	853	110.7	106.9
Other	3	3	2.0	1.9
Total	18,105	8,689	$ 1,342.6	$ 1,351.6

TENANT INSTALLATION COSTS AND CAPITAL EXPENDITURES

Upon the signing of the majority of our leases, we provide tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to these capital expenditures, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. Tenant improvements and leasing commissions are capitalized in the year incurred, amortized over the term of the lease, and recovered through rental payments. Expenditures for tenant installation costs for the three and six months ended June 30, 2008 totaled $2.6 million and $3.2 million, respectively, compared with $2.3 million and $5.6 million during the same periods in 2007. The increase was a result of higher tenant installation costs incurred on the lease-up of space throughout our portfolio.

Tenant installation costs are summarized as follows:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	2008	2007	2008	2007
Leasing commissions	$ 0.7	$ 0.6	$ 0.9	$ 1.8
Tenant improvements	1.9	1.7	2.3	3.8
Total	$ 2.6	$ 2.3	$ 3.2	$ 5.6

We also invest in ongoing maintenance and capital-improvement projects to sustain the high quality of the infrastructure and tenant service amenities in our properties. Capital expenditures for the three and six months ended June 30, 2008 totaled $5.1 million and $8.5 million, respectively, compared with $3.8 million and $5.2 million during the same periods in 2007. These expenditures exclude repairs and maintenance costs, which are recovered through contractual tenant cost-recovery payments.

Capital expenditures include revenue-enhancing capital expenditures, which represent improvements to an asset or reconfiguration of space to increase rentable area or increase current rental rates, and non-revenue-enhancing expenditures, which are those required to extend the service life of an asset. The increase is primarily attributed to an increase in revenue-enhancing capital expenditures for improvements and reconfiguration of space at the Royal Centre in Vancouver.

The details of our capital expenditures are summarized as follows:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	2008	2007	2008	2007
Revenue-enhancing	$ 4.0	$ 2.7	$ 6.8	$ 3.7
Non-revenue-enhancing	1.1	1.1	1.7	1.5
Total	$ 5.1	$ 3.8	$ 8.5	$ 5.2

COMMERCIAL DEVELOPMENTS

The details of the commercial developments portfolio and related book values are as follows:

(Millions, except square feet)	Buildable Sq. Ft.	Sq. Ft. Currently Under Construction	Jun. 30, 2008	Dec. 31, 2007
Current developments				
Bay Adelaide Centre, Toronto	2,600,000	1,160,000	$ 487.1	$ 374.2
Bankers Court, Calgary	500,000	265,000	32.5	21.7
Planning				
Herald Block, Calgary	1,200,000	—	53.7	52.5
Others:				
Brookfield Place III, Toronto	800,000	—		
Place de Ville III, Ottawa	577,000	—		
	1,377,000		4.1	4.1
Total	5,677,000	1,425,000	$ 577.4	$ 452.5

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total book value of this development land and infrastructure was $577.4 million at June 30, 2008, an increase of $124.9 million from $452.5 million at December 31, 2007. The increase is a result of the ongoing active construction at two of our development sites during the quarter ended June 30, 2008. The following is a brief description of our construction in progress:

- Bay Adelaide Centre in Toronto represents one of our largest development projects. Ground-breaking on Phase I of this project took place in July of 2006 and construction is actively underway and continues to be on budget. Phase I, which is expected to be completed in 2009, represents 1.2 million square feet of a three-phase project which is expected to total 2.6 million square feet. Due to the continuous construction on Phase I, the book value of this site has increased by $112.9 million since December 31, 2007. The building is currently 65% leased.

- Construction on Bankers Court in Calgary, a 500,000-square-foot, two-building project, commenced in the third quarter of 2006. Active development of the first building, totaling 265,000 square feet, is taking place and is expected to be completed in the first quarter of 2009. The building is 100% leased. As a result of the continuous development, the book value of this site has increased by $10.8 million since December 31, 2007.

We continue to expand the Herald Block development site in Calgary. Last year we acquired the Heagle building for $5.0 million, adding 100,000 square feet of additional density to the site, which now has a capacity of 1.2 million rentable square feet. The acquisition of the building also links the site to existing skybridge connections.

Although we are not a speculative developer, we are a full-service real estate company with in-house development expertise. With over five million square feet of high-quality, centrally located development properties in Toronto, Ottawa and Calgary, we will undertake developments when our risk-adjusted returns and pre-leasing targets have been achieved.

Expenditures for development and redevelopment on commercial properties totaled $72.2 million and $122.6 million during the three and six months ended June 30, 2008, respectively, compared with $28.7 million and $46.2 million during the same periods in 2007. The increase is due to increased construction activity on the Bay Adelaide Centre and Bankers Court projects mentioned above.

The details of development expenditures are as follows:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Construction costs	$ 61.9	$ 16.2	$ 101.9	$ 25.4
Interest capitalized	6.9	5.9	14.2	11.4
Property taxes and other	3.4	6.6	6.5	9.4
Total	$ 72.2	$ 28.7	$ 122.6	$ 46.2

LOANS RECEIVABLE

Loans receivable decreased to $146.5 million at June 30, 2008, compared with $283.5 million at December 31, 2007. The decrease primarily relates to the repayment of the O&Y Debt of $41.8 million and an on-demand deposit of $220.0 million with our parent company, Brookfield Properties Corporation ("BPC") during the quarter, offset by accrued interest from all of our outstanding loan receivable balances, as well as foreign exchange gains from loan receivables denominated in U.S. dollars of $20.9 million (December 31, 2007 – $23.6 million). Subsequent to the repayment of the on-demand deposit from BPC, the Company issued another on-demand deposit of $125.0 million to BPC, which earns interest at the bank overnight lending rate plus 100 basis points.

In August 2007, the Company acquired 100% of the O&Y Acquisition Facility ("O&Y Debt") through payment of $160.3 million to a subsidiary of Brookfield Asset Management Inc. ("BAM"), the ultimate parent of the Company. The O&Y Debt was associated with certain properties the Company acquired through its acquisition of a 25% joint venture interest in O&Y Properties Corporation and O&Y Real Estate Investment Trust in 2005. The Company was liable for $84.3 million or 52.6% of the O&Y Debt. As a result of this transaction, the Company had a loan receivable of $76.0 million (47.4% of the O&Y Debt) from one of the Company's joint venture partners, which represents the partner's initial share of the O&Y Debt owed to the subsidiary of BAM. The Company collected $34.2 million during the fourth quarter of 2007, and the remaining balance owed was fully repaid during the quarter. The loan receivable bears interest of CDOR plus 1.10%, resulting in interest income of $0.1 million and $0.7 million being recorded during the three and six months ended June 30, 2008 (compared with $nil and $nil during the same periods in 2007).

INTANGIBLE ASSETS

Pursuant to Emerging Issues Committee Abstract 140, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination" an enterprise that acquires real estate should allocate a portion of the purchase price to in-place operating leases, based on their fair value that the enterprise acquires in connection with the real estate property. We assess the fair value of acquired intangible assets and liabilities, including tenant improvements, above- and below-market leases, origination costs, and other identified intangible assets and assumed liabilities. Net intangible assets decreased to $35.4 million at June 30, 2008 from $40.2 million at December 31, 2007 primarily due to amortization during the six months ended June 30, 2008. Approximately $5.8 million of fully amortized intangible assets, and the corresponding accumulated amortization were written off during the six months ended June 30, 2008. The components of intangible assets are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Intangible assets		
Lease-origination costs	$ 51.8	$ 57.1
Tenant relationships	7.3	7.6
Above-market in-place operating leases	2.1	2.3
	61.2	67.0
Less accumulated amortization		
Lease-origination costs	(23.3)	(24.6)
Tenant relationships	(1.7)	(1.4)
Above-market in-place operating leases	(0.8)	(0.8)
Total	$ 35.4	$ 40.2

TENANT RECEIVABLES AND OTHER ASSETS

Tenant receivables and other assets increased to $71.3 million at June 30, 2008 from $66.0 million at December 31, 2007 primarily due to an increase in tenant and other receivables and prepaid expenses and other assets. The components of tenant receivables and other assets are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Tenant and other receivables	$ 34.0	$ 32.0
Straight-line rent receivable	17.7	16.5
Prepaid expenses and other assets	18.5	16.4
Restricted cash	1.1	1.1
Total	$ 71.3	$ 66.0

CASH AND CASH EQUIVALENTS

We endeavor to maintain high levels of liquidity to ensure that we can react quickly to potential investment opportunities. To ensure we maximize our returns, cash balances are generally carried at a modest level.

As at June 30, 2008, cash balances increased to $51.5 million from $37.7 million at December 31, 2007. The increase is primarily due to funds from our operating activities during the current quarter ended.

DISCONTINUED OPERATIONS

Properties that meet the criteria of CICA Handbook Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations," are classified as discontinued operations. Any long-lived assets related to the property are recorded at the lower of carrying amount or fair value less estimated costs to sell and are not depreciated while classified as held for sale. The results of operations and balance sheet items of any property that has been identified as discontinued operations are reported separately if the operations of the property will be eliminated as a result of the disposal, and the Company will not have any significant continuing involvement in the operations of the property after the disposal transaction. Comparative amounts are also reclassified.

During the second quarter of 2008, the Company sold its 25% interest in 4342 Queen Street in Niagara Falls, resulting in a gain of $nil. Net income attributable to discontinued operations was $nil during the three and six months ended June 30, 2008, compared to $5.3 million and $52.2 million during the same period in 2007. The decrease in net income is the result of the sale of seven properties in 2007, which includes Atrium on Bay, 18 King Street, 2 St. Clair West and 40 St. Clair West in Toronto, 2200 Walkey Road and 2204 Walkley Road in Ottawa, and Gulf Canada Square in Calgary. There were no properties classified as held for sale during the quarter ended June 30, 2008.

The components of assets and liabilities related to discontinued operations are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Assets related to discontinued operations		
Commercial properties	$ —	$ 3.2
Intangible assets	—	0.1
Tenant receivables and other assets	—	0.9
Total assets related to discontinued operations	$ —	$ 4.2
Liabilities related to discontinued operations	—	
Accounts payable and other liabilities	—	3.0
Total liabilities related to discontinued operations	$ —	$ 3.0

The following table summarizes the income and gains from discontinued operations:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions, except per-share amounts)	2008	2007	2008	2007
Revenue	$ —	$ 4.9	$ 0.1	$ 12.3
Operating expenses	—	(1.3)	(0.1)	(4.4)
	—	3.6	—	7.9
Interest expense	—	(0.6)	—	(1.5)
	—	3.0	—	6.4
Depreciation and amortization	—	(1.1)	—	(2.2)
Income from discontinued operations prior to gains and taxes	—	1.9	—	4.2
Gains on sale of discontinued operations	—	4.9	—	59.5
Income taxes related to discontinued operations	—	(1.5)	—	(11.5)
Net income from discontinued operations	$ —	$ 5.3	$ —	$ 52.2
Net income from discontinued operations – per share	$ —	$ 0.19	$ —	$ 1.84

LIABILITIES AND SHAREHOLDERS' EQUITY

Our asset base of $2,224.7 million is financed with a combination of debt, preferred and common equity. The components of our liabilities and shareholders' equity are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Liabilities		
Commercial and development property debt	$ 1,109.8	$ 965.5
Intangible liabilities	78.4	85.0
Accounts payable and other liabilities	137.9	100.4
Future income tax liabilities	46.1	41.3
Liabilities related to discontinued operations	—	3.0
Shareholders' equity		
Preferred shares	381.7	381.7
Common shares	78.8	78.8
Retained earnings and AOCI	392.0	580.0
Total	$ 2,224.7	$ 2,235.7

COMMERCIAL AND DEVELOPMENT PROPERTY DEBT

Commercial and development property debt totaled $1,109.8 million at June 30, 2008, compared with $965.5 million at December 31, 2007. The increase is primarily attributed to additional advances on the development loans of Bay Adelaide Centre in Toronto and Bankers Court in Calgary, as well as new financings in various properties.

The Company obtained new financings for 2 Queen Street East in Toronto, Altius Centre in Calgary and Canadian Western Bank Place in Edmonton for an aggregate net proceeds of $63.6 million, at BPO Properties' interest. These new financings are nonrecourse to the Company.

The Company also obtained permanent financing for Royal Centre in Vancouver for $122.0 million. The funds were used to repay the prior bridge facility of $132.0 million. This new financing is nonrecourse to the Company.

During the quarter, the Company fully repaid the $100.0 million debt maturing on Hudson's Bay Centre in Toronto and subsequently entered into a new financing arrangement for $110.0 million, generating $10.0 million of net proceeds. The new debt has limited recourse to the Company for up to $15.0 million.

Terms of each debt are as follows:

(Millions, except interest rate data)		Amount (BPO's Interest)	Interest Rate (%)	Maturity
2 Queen Street East, Toronto	New financing	$ 28.6	5.6	December 2017
Altius Centre, Calgary	New financing	20.5	5.6	December 2017
Canadian Western Bank Place, Edmonton	New financing	14.5	5.6	December 2017
Royal Centre, Vancouver	New financing	122.0	5.0	May 2012
Hudson's Bay Centre, Toronto	New financing	110.0	5.2	May 2013

Commercial and development property debt at June 30, 2008, had an average interest rate of 6.2% and an average term to maturity of five years. All of our commercial property debts, which make up the majority of the total commercial and development property debt balance, are recourse only to specific properties, thereby reducing the overall financial risk to the Company.

Subsequent to the quarter ended June 30, 2008, the Company fully repaid the mortgage loan at 22 Front Street in Toronto, which matured July 15, 2008 in the amount of $6.3 million.

The Company will continue to make efforts to match the maturity of our commercial and development property debt portfolio with the average lease term of our properties. The Company has debt on two of its properties maturing during the remainder of 2008 in the amount of $127.0 million; this debt is expected to be refinanced in the normal course of business.

The details of commercial and development property debt at June 30, 2008, are as follows:

Commercial Property	Location	Interest Rate (%)	Maturity Date	Brookfield Properties' Consolidated Share (Millions)	Mortgage Details
Petro-Canada Centre	Calgary	6.7	2008	$ 120.7	Nonrecourse - fixed rate
22 Front St	Toronto	11.9	2008	6.3	Nonrecourse - fixed rate
First Canadian Place	Toronto	8.1	2009	61.4	Nonrecourse - fixed rate
Place de Ville I	Ottawa	7.8	2009	6.2	Nonrecourse - fixed rate
Bankers Court	Calgary	5.1	2009	20.0	Recourse - variable rate
Enbridge Tower	Edmonton	6.7	2009	2.3	Nonrecourse - fixed rate
Fifth Avenue Place	Calgary	7.6	2011	72.4	Nonrecourse - fixed rate
Queen's Quay Terminal	Toronto	7.3	2011	34.5	Nonrecourse - fixed rate
Bay Adelaide Centre	Toronto	5.0	2012	182.5	Recourse - variable rate
Exchange Tower	Toronto	6.8	2012	62.0	Nonrecourse - fixed rate
HSBC Building	Toronto	8.2	2012	23.1	Nonrecourse - fixed rate
151 Yonge Street	Toronto	6.0	2012	11.3	Nonrecourse - fixed rate
Royal Centre	Vancouver	5.0	2012	122.0	Nonrecourse - fixed rate
Bankers Hall	Calgary	7.2	2013	161.8	Nonrecourse - fixed rate
105 Adelaide Street West	Toronto	5.3	2013	23.0	Nonrecourse - fixed rate
Bankers Hall	Calgary	6.7	2013	11.5	Nonrecourse - fixed rate
Hudson's Bay Centre[1]	Toronto	5.2	2013	110.0	Recourse - fixed rate
Jean Edmonds Tower	Ottawa	5.6	2014	1.5	Nonrecourse - fixed rate
2 Queen Street East	Toronto	5.6	2017	28.6	Nonrecourse - fixed rate
Altius Centre	Calgary	5.6	2017	20.5	Nonrecourse - fixed rate
Canadian Western Bank Place	Edmonton	5.6	2017	14.5	Nonrecourse - fixed rate
Jean Edmonds Tower	Ottawa	6.8	2024	15.6	Nonrecourse - fixed rate
Premium on assumed mortgages	Various	—	—	5.2	
Continuing operations		6.2		$ 1,116.9	
Deferred financing costs				(7.1)	
Total				$ 1,109.8	

[1] *Limited recourse up to $15.0 million.*

Commercial and development property debt maturities for the next five years and thereafter are as follows:

(Millions, except interest rate data)	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate (%) at Jun. 30, 2008
Remainder of 2008	$ 7.7	$ 126.8	$ 134.5	6.9
2009	10.4	89.8	100.2	7.4
2010	13.3	—	13.3	—
2011	12.2	99.1	111.3	7.5
2012	6.8	380.9	387.7	5.5
2013 and thereafter	21.7	341.1	362.8	6.2
Total	$ 72.1	$ 1,037.7	$ 1,109.8	6.2

CONTRACTUAL OBLIGATIONS

The following table presents our contractual obligations over the next five years:

	Payments Due By Period			
(Millions)	Total	1 - 3 Years	4 - 5 Years	After 5 Years
Commercial and development property debt	$ 1,109.8	$ 248.0	$ 499.0	$ 362.8
Interest expense[1] - Commercial and development property debt	225.3	119.2	63.5	42.6
Ground leases[2]	2,215.0	12.3	9.8	2,192.9
	$ 3,550.1	$ 379.5	$ 572.3	$ 2,598.3

[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]Represents minimum rental payments on land leases or other agreements largely expiring on or before the year 2099.

CORPORATE GUARANTEES AND CONTINGENT OBLIGATIONS

We may be contingently liable with respect to litigation and claims that arise in the normal course of business. In addition, we may execute agreements that provide for indemnifications and guarantees to third parties. Disclosure of commitments, guarantees and contingencies can be found in Note 16 of the second quarter 2008 consolidated interim financial statements.

INTANGIBLE LIABILITIES

Intangible liabilities include below-market tenant leases and above-market ground leases assumed on acquisitions, net of related accumulated amortization. Net intangible liabilities decreased to $78.4 million at June 30, 2008 from $85.0 million at December 31, 2007 primarily due to amortization during the six months ended June 30, 2008. Approximately $1.3 million of fully amortized intangible liabilities and the corresponding accumulated amortization were written off during the six months ended June 30, 2008.

The composition of intangible liabilities is as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Intangible liabilities		
Below-market in-place operating leases	$ 67.1	$ 68.3
Above-market ground lease obligations	45.8	45.8
	112.9	114.1
Less accumulated amortization		
Below-market in-place operating leases	(27.7)	(23.6)
Above-market ground lease obligations	(6.8)	(5.5)
Total	$ 78.4	$ 85.0

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities totaled $137.9 million at June 30, 2008, compared with $100.4 million at December 31, 2007. The increase is primarily related to the timing of accrued liabilities, higher accrued interest, and higher accrued construction costs as a result of advancements in our two development projects, Bay Adelaide Centre in Toronto and Bankers Court in Calgary.

A summary of the components of accounts payable and other liabilities is as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Accounts payable and accrued liabilities	$ 131.7	$ 95.3
Accrued interest	6.2	5.1
Total	$ 137.9	$ 100.4

FUTURE INCOME TAXES

At June 30, 2008, we had net future income tax liabilities of $46.1 million compared to $41.3 million at December 31, 2007. The increase of $4.8 million is due to a decrease of future income tax assets related to operating and capital losses. The components of future income tax liabilities are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Future income tax assets related to operating and capital losses	$ (5.8)	$ (16.6)
Future income tax liabilities related to differences between tax and book basis	51.9	57.9
Total	$ 46.1	$ 41.3

At June 30, 2008, the Company had net operating loss carryforwards of approximately $26.6 million (December 31, 2007 – $54.7 million) which are available to reduce taxable income of future years.

The benefit of the tax losses, net of a valuation allowance, has been reflected in the future income tax assets. The amount of noncapital losses and deductible temporary differences, for which no future income tax assets have been recognized, is $158.1 million (December 31, 2007 - $158.1 million).

The components of income tax expense are as follows:

Continuing operations

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2007 – 34.0%)	$ 8.1	$ 8.1	$ 16.2	$ 14.6
Decrease in income tax expense due to the following:				
Other	(0.3)	—	(0.9)	—
Total	$ 7.8	$ 8.1	$ 15.3	$ 14.6

Discontinued operations

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2007 – 34.0%)	$ —	$ 2.3	$ —	$ 21.6
Decrease in income tax expense due to the following:				
Nontaxable portion of capital gain	—	(0.8)	—	(10.1)
Total	$ —	$ 1.5	$ —	$ 11.5
Total income tax expense	$ 7.8	$ 9.6	$ 15.3	$ 26.1

The major components of income tax expense include the following:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Current tax expense	$ 5.4	$ 2.2	$ 10.5	$ 6.1
Future tax expense	2.4	7.4	4.8	20.0
Total	$ 7.8	$ 9.6	$ 15.3	$ 26.1

PREFERRED SHARES

At June 30, 2008 we had $381.7 million of preferred equity outstanding consistent with the balance at December 31, 2007. These preferred shares represent low-cost capital to us, without dilution to our common equity base. Dividends paid on these preferred shares are accounted for as capital distributions.

We have the following preferred shares outstanding:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Jun. 30, 2008	Dec. 31, 2007
Series G	1,805,489	70% of bank prime	$ 45.1	$ 45.1
Series J	3,816,527	70% of bank prime	95.4	95.4
Series K	300	30-day BA + 0.4%	150.0	150.0
Series M	2,847,711	70% of bank prime	71.2	71.2
Series N	800,000	30-day BA + 0.4%	20.0	20.0
Total			$ 381.7	$ 381.7

The redemption terms of the preferred shares issued by BPO Properties are as follows:

(i) Series G preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate. The Company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(ii) Series J and M preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate for the previous quarter. The Company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(iii) Series K preferred shareholders are entitled to cumulative dividends at the 30-day bankers' acceptance rate plus 0.4%. The Company may, at its option, redeem the shares at a price of $500,000 per share plus an amount equal to all accrued and unpaid dividends.

(iv) Series N preferred shareholders are entitled to cumulative dividends at the 30-day bankers' acceptance rate plus 0.4%. The Company may, at its option, redeem the shares at $25 per share plus arrears on any accrued and unpaid dividends.

During the three and six months ended June 30, 2008, we paid preferred dividends of $3.7 million and $8.0 million, respectively, compared with $4.3 million and $8.8 million during the same periods in 2007 due to a decrease in interest rates on which the dividend rates are based.

COMMON EQUITY

As at June 30, 2008, we had 28.5 million issued and outstanding common shares, which included 21.7 million non-voting equity shares, consistent with the amounts issued and outstanding at December 31, 2007.

During the second quarter of 2008, we paid special common share dividends of $206.5 million (compared to $nil during the same period in 2007) or $7.25 per common share. In addition, we paid common share dividends of $4.3 million and $8.6 million, respectively during the three and six months ended June 30, 2008, which is consistent with the same periods in 2007.

The book value per common share at June 30, 2008 was $16.52 compared with $23.12 at December 31, 2007.

At June 30, 2008, the book value of our common equity was $470.8 million (December 31, 2007 - $658.8 million), compared with a market equity capitalization of approximately $1,467.8 million (December 31, 2007 – $1,718.6 million), calculated as total common shares outstanding multiplied by $51.50 per share, the closing price per common share on the Toronto Stock Exchange on June 30, 2008 (December 31, 2007 – $60.30 per share).

CAPITAL RESOURCES AND LIQUIDITY

We employ a broad range of financing strategies to facilitate growth and manage financial risk, with particular emphasis on the overall reduction of the weighted-average cost of capital, in order to enhance returns for common shareholders. Our principal liquidity needs for the next twelve months are to:

- fund recurring expenses;
- meet debt service requirements;
- make dividend payments;
- fund capital expenditures, including tenant improvements;
- fund current development costs not covered under construction loans;
- invest in the establishment of new funds;
- repurchase our stock; and
- possibly fund new property acquisitions.

We believe that our liquidity needs will be satisfied using cash on hand, cash flows generated from operating activities and provided by financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, interest and other income, available cash balances, draws on our corporate credit facilities and refinancings, including upward refinancings, of maturing indebtedness are our principal sources of capital used to pay operating expenses, dividend payments, debt service and recurring capital and leasing costs in our commercial property portfolio. We seek to increase income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and support increases in rental rates while reducing tenant turnover and controlling operating expenses. Another source of cash flow includes third-party fees generated by our asset management, leasing and development businesses. In addition, our tax status as a corporation and tax loss pools allow us to reinvest and retain cash generated by our operations without incurring significant cash taxes. Consequently, we believe our revenue along with proceeds from financing activities will continue to provide the necessary funds for our short-term liquidity needs. However, material changes in these factors may adversely affect our net cash flows.

Our principal liquidity needs for periods beyond the next twelve months are for development costs, potential property acquisitions, scheduled debt maturities and non-recurring capital expenditures. We plan to meet these needs with one or more of the following:

- construction loans;
- investment in new funds;
- income from operations;
- proceeds from sales of assets; and
- financings, including upward refinancings.

Our commercial property debt is primarily fixed-rate and nonrecourse to the Company. These investment-grade financings are typically structured on a loan-to-appraised-value basis of up to 70%. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit-quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces our equity requirements to finance commercial property, and enhances equity returns.

OPERATING RESULTS

Net Income

Our net income for the three and six months ended June 30, 2008 was $17.8 million ($0.49 per share) and $35.1 million ($0.95 per share), respectively, compared to $21.1 million ($0.59 per common share) and $80.4 million ($2.51 per share) during the same periods in 2007.

The net decrease from the second quarter of 2007 to the second quarter of 2008 is largely a result of the following:

- a $1.6 million increase in interest expense, net of taxes ($0.06 per share) due to completion of new financings during the current quarter;
- a $5.3 million decrease in net income from discontinued operations, net of taxes ($0.19 per share), as there were no properties held for sale during the current quarter, offset by;
- a $1.9 million increase in loans and investment income, net of taxes ($0.07 per share), primarily due to interest income from the on-demand deposit with BPC.

The net decrease from the six months ended June 30, 2007 to six months ended June 30, 2008 is largely a result of the following:

- a $2.0 million increase in interest expense, net of taxes ($0.07 per share) due to completion of new financings during the period;
- a $52.2 million decrease in net income from discontinued operations, net of taxes ($1.83 per share), as there were no properties held for sale during the six months ended June 30, 2008, offset by;
- a $1.8 million growth in same property net operating income, net of taxes ($0.06 per share), primarily due to continued growth in same property revenues as a result of new leases and expansions; and
- a $2.4 million increase in loans and investment income, net of taxes ($0.08 per share), primarily due to interest income from the on-demand deposit with BPC.

Revenue from commercial properties includes rental revenues earned from tenant leases, straight-line rent, percentage rent, and additional rent from the recovery of operating costs and property taxes. Revenue from commercial properties totaled $86.4 million and $170.1 million during the three and six months ended June 30, 2008, respectively, compared with $83.3 million and $164.0 million during the same period in 2007.

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

(Millions, except per share amounts)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Commercial properties				
Revenue	$ 86.4	$ 83.3	$ 170.1	$ 164.0
Expenses	37.6	34.5	73.6	70.2
	48.8	48.8	96.5	93.8
Loans and investment income	4.8	2.0	8.4	4.9
	53.6	50.8	104.9	98.7
Expenses				
Interest expense	9.8	7.4	18.6	15.7
General and administrative expenses	5.2	5.1	10.3	10.9
Funds from operations[1]	38.6	38.3	76.0	72.1
Depreciation and amortization	13.0	14.4	25.6	29.3
Income taxes	7.8	8.1	15.3	14.6
Net income from continuing operations	17.8	15.8	35.1	28.2
Discontinued operations[2]	—	5.3	—	52.2
Net income	$ 17.8	$ 21.1	$ 35.1	$ 80.4
Net income per common share				
Continuing operations	$ 0.49	$ 0.40	$ 0.95	$ 0.67
Property-disposition gains	—	0.14	—	1.73
Discontinued operations	—	0.05	—	0.11
	$ 0.49	$ 0.59	$ 0.95	$ 2.51
Funds from operations and gains per common share				
Continuing operations	$ 1.22	$ 1.19	$ 2.38	$ 2.22
Property-disposition gains	—	0.17	—	2.08
Discontinued operations	—	0.11	—	0.23
Total	$ 1.22	$ 1.47	$ 2.38	$ 4.53

[1] *Represents funds from continuing operations.*

[2] *Refer to page 13 for further details on discontinued operations.*

It should be noted that challenges of comparability of net income exist among various real estate companies, as those entities structured as corporations, such as the Company, are required to charge their earnings with tax expense despite the presence of tax losses, which reduce the Company's cash tax obligation. This differs from those entities which operate as real estate investment trusts ("REITs"), as REITs are not subject to taxation, provided they remain in compliance with specific tax codes.

Our net income per common share and weighted-average common shares outstanding are calculated as follows:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Net income	$ 17.8	$ 21.1	$ 35.1	$ 80.4
Preferred share dividends	(3.7)	(4.3)	(8.0)	(8.8)
Net income available to common shareholders	$ 14.1	$ 16.8	$ 27.1	$ 71.6
Weighted average shares outstanding	28.5	28.5	28.5	28.5

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Net income	$ 17.8	$ 21.1	$ 35.1	$ 80.4
Depreciation and amortization[1]	13.0	15.5	25.6	31.5
Income taxes[2]	7.8	9.6	15.3	26.1
Funds from operations and gains	38.6	46.2	76.0	138.0
Property disposition gains	—	(4.9)	—	(59.5)
Funds from operations	$ 38.6	$ 41.3	$ 76.0	$ 78.5

[1] *Includes depreciation and amortization from discontinued operations of $nil for the three and six months ended June 30, 2008, respectively (2007 - $1.1 million and $2.2 million, respectively).*

[2] *Includes income taxes from discontinued operations of $nil for the three and six months ended June 30, 2008, respectively (2007 - $1.5 million and $11.5 million, respectively).*

After providing for preferred share dividends, our funds from operations per diluted share, excluding property disposition gains, is calculated as follows:

(Millions, except per share amounts)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Funds from operations	$ 38.6	$ 41.3	$ 76.0	$ 78.5
Preferred share dividends	(3.7)	(4.3)	(8.0)	(8.8)
	34.9	37.0	68.0	69.7
Weighted-average shares outstanding	28.5	28.5	28.5	28.5
Funds from operations per share	$ 1.22	$ 1.30	$ 2.38	$ 2.45

Funds from continuing operations decreased to $1.22 and $2.38 per share during the three and six months ended June 30, 2008, respectively, compared with $1.30 and $2.45 per share during the same periods in 2007. The decrease is primarily due to funds generated from discontinued operations in 2007, which were subsequently sold during the year. This is offset by an increase in same property commercial rental revenue and loans and investment income.

REVENUE

The components of revenue are as follows:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Revenue from continuing operations	$ 83.1	$ 80.0	$ 163.9	$ 157.8
Fee income	3.3	3.3	6.2	6.2
Revenue from discontinued operations	—	4.9	0.1	12.3
Total commercial property revenue	86.4	88.2	170.2	176.3
Loans and investment income	4.8	2.0	8.4	4.9
Total	$ 91.2	$ 90.2	$ 178.6	$ 181.2

COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled $48.8 million and $96.5 million during the three and six months ended June 30, 2008, respectively, compared with $48.8 million and $93.8 million during the same periods in 2007. The components of commercial property net operating income from continuing operations are as follows:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Revenue from continuing operations and fee income	$ 86.4	$ 83.3	$ 170.1	$ 164.0
Operating expenses	37.6	34.5	73.6	70.2
Total	$ 48.8	$ 48.8	$ 96.5	$ 93.8

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Net operating income – same property	$ 45.1	$ 41.9	$ 89.1	$ 83.4
Recurring fee income	3.3	3.3	6.2	6.2
Nonrecurring fees and other income	0.4	3.6	1.2	4.2
Total	$ 48.8	$ 48.8	$ 96.5	$ 93.8

The components of commercial property net operating income from discontinued operations are as follows:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Revenue from discontinued operations	$ —	$ 4.9	$ 0.1	$ 12.3
Property operating expenses	—	(1.3)	(0.1)	(4.4)
Net operating income from discontinued operations	$ —	$ 3.6	$ —	$ 7.9

Our leases generally have clauses which provide for the collection of rental revenues in amounts that increase every five years, with these increases negotiated at the signing of the lease. The large number of high-credit-quality tenants in our portfolio lowers the risk of not realizing these increases. GAAP requires that these increases be recorded on a straight-line basis over the life of the lease. For the three and six months ended June 30, 2008, we recognized $0.5 and $1.2 million of straight-line rental revenue, respectively, as compared to $0.5 and $1.5 million during the same period in 2007.

Commercial property operating costs which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses were $37.6 million and $73.6 million for the three and six months ended June 30, 2008, respectively, as compared to $34.5 million and $70.2 million during the same periods in 2007. The slight increase was the result of an increase in utility costs generally due to increased gas and electricity costs.

Substantially all of our leases are net leases in which the lessee is required to pay their proportionate share of the property's operating expenses such as utilities, repairs, insurance, and taxes. Consequently, leasing activity is the principal contributor to the change in same-property net operating income. During the second quarter of 2008, occupancy increased by 40 basis points due to lease-ups in Ottawa, Calgary and Vancouver as compared to the same quarter of 2007. At June 30, 2008, average in-place net rent throughout the portfolio was $22 per square foot, compared with $21 per square foot at June 30, 2007.

The following table shows the average in-place rents and estimated current market rents for similar space in each of our markets as of June 30, 2008:

	Gross Leasable Area (000's Sq. Ft.)	Avg. Lease Term (Years)	Avg. In-Place Net Rent ($ per Sq. Ft.)	Avg. Market Net Rent ($ per Sq. Ft.)
Toronto, Ontario	7,054	7	$ 24	$ 27
Ottawa, Ontario	2,780	6	17	21
Calgary, Alberta	6,704	6	24	40
Edmonton, Alberta	711	6	11	27
Vancouver, B.C.	853	10	16	30
Other	3	3	31	10
Total[1]	18,105	6	$ 22	$ 31

[1] *Excludes developments.*

A summary of current and historical occupancy levels at June 30 for the past two years is as follows:

	Jun. 30, 2008		Jun. 30, 2007	
(000's Sq. Ft., except % leased data)	Total Sq. Ft.	% Leased	Total Sq. Ft.	% Leased
Toronto, Ontario	7,054	97.0	7,502	97.0
Ottawa, Ontario	2,780	99.7	2,780	99.1
Calgary, Alberta	6,704	99.9	7,845	99.9
Edmonton, Alberta	711	99.8	710	98.7
Vancouver, B.C.	853	97.4	853	96.6
Other	3	100.0	212	67.6
Total[1]	18,105	98.6	19,902	98.2

[1] Excludes developments.

During the second quarter of 2008, we leased 550,000 square feet of space, approximately two times the amount of space contractually expiring in the quarter. This included 543,000 square feet of new leasing and renewals, and 7,000 square feet of development leasing, compared to expiries of 317,000 square feet and accelerated expiries of 243,000 square feet. For the six months ended June 30, 2008, the average leasing net rent is $34, which is an increase of 48% over the average expiring net rent of $23.

The details of our leasing activity for the second quarter of 2008 are as follows:

	Dec. 31, 2007		Activities During the Six Months Ended Jun. 30, 2008						Jun. 30, 2008	
(000's Sq. Ft.)	GLA[1]	Leased	Expiries	Average Expiring Net Rent	Leasing	Year One[2][4] Leasing Net Rent	Average[3][4] Leasing Net Rent	Acq. (Disp.)	GLA[1]	Leased
Toronto, Ontario	7,054	6,901	(388)	$ 22	356	$ 29	$ 30	—	7,054	6,869
Ottawa, Ontario	2,780	2,769	(46)	15	52	21	21	—	2,780	2,775
Calgary, Alberta	6,704	6,690	(293)	28	301	41	42	—	6,704	6,698
Edmonton, Alberta	710	705	(44)	10	50	27	28	1	711	711
Vancouver, B.C.	853	838	(11)	21	12	31	33	—	853	839
Other	212	164	—	—	—	—	—	(209)	3	3
Total[1]	18,313	18,067	(782)	$ 23	771	$ 33	$ 34	(208)	18,105	17,895
Development leasing					149					
Total Leasing					920					

[1] Excludes developments.

[2] Represents net rent in the first year.

[3] Represents average net rent over lease term.

[4] Excludes properties sold.

INTEREST AND OTHER INCOME

Loans and investment income totaled $4.8 million and $8.4 million during the three and six months ended June 30, 2008, compared to $2.0 million and $4.9 million during the same periods in 2007. The increase primarily relates to interest income earned on the on-demand deposits with BPC, offset by a decrease in loan interest income as a result of the repayment of the Atrium on Bay and Exchange Tower loan receivable during 2007.

INTEREST EXPENSE

Interest expense totaled $9.8 million and $18.6 million during the three and six months ended June 30, 2008, compared with $7.4 million and $15.7 million during the same periods in 2007. The increase is due to new financings for 105 Adelaide Street West in Toronto during the first quarter of 2008 and 2 Queen Street East in Toronto, Altius Centre in Calgary, Canadian Western Bank Place in Edmonton and Royal Centre in Vancouver during the second quarter of 2008, as well as amortization of deferred financing fees using the effective interest rate method.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $5.2 million and $10.3 million for the three and six months ended June 30, 2008, respectively, compared to $5.1 million and $10.9 million during the same period in 2007. For the three and six months ended June 30, 2008, administrative expenses include $3.1 million and $6.5 million (compared with $2.4 million and $5.5 million during the same period in 2007), net of recoveries, paid pursuant to management contracts with Brookfield Properties Ltd. under which services and facilities are provided to the Company (refer to page 30 and 31).

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense includes amortization of the value of buildings over their useful lives and the accelerated amortization of lease-origination and tenant-relationship costs over the average life of the lease portfolio. Depreciation and amortization expense for the three and six months ended June 30, 2008 were $13.0 million and $25.6 million respectively, compared with $14.4 million and $29.3 million during the same periods in 2007.

QUARTERLY RESULTS

The results by quarter are as follows:

	2008		2007				2006	
(Millions, except per-share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	$ 91.2	$ 87.4	$ 90.6	$ 86.9	$ 90.2	$ 91.0	$ 98.6	$ 96.2
Net operating income								
Operating income from commercial properties	48.8	47.7	47.6	46.0	48.8	45.0	47.8	45.4
Loans and investment income	4.8	3.6	5.1	2.3	2.0	2.9	4.2	6.3
	53.6	51.3	52.7	48.3	50.8	47.9	52.0	51.7
Expenses								
Interest expense	9.8	8.8	6.1	8.2	7.4	8.3	10.0	10.5
General and administrative expenses	5.2	5.1	4.8	4.5	5.1	5.8	4.0	4.1
Transaction costs	—	—	—	4.0	—	—	—	—
	38.6	37.4	41.8	31.6	38.3	33.8	38.0	37.1
Depreciation and amortization	13.0	12.6	15.6	13.6	14.4	14.9	14.8	14.9
Income taxes	7.8	7.5	5.7	7.9	8.1	6.5	7.9	7.5
Net income from continuing operations	17.8	17.3	20.5	10.1	15.8	12.4	15.3	14.7
Discontinued operations	—	—	22.5	5.3	5.3	46.9	2.0	1.6
Net income	$ 17.8	$ 17.3	$ 43.0	$ 15.4	$ 21.1	$ 59.3	$ 17.3	$ 16.3
Net income per common share								
Continuing operations	$ 0.49	$ 0.46	$ 0.55	$ 0.19	$ 0.40	$ 0.27	$ 0.39	$ 0.36
Discontinued operations	—	—	0.79	0.19	0.19	1.65	0.07	0.06
	$ 0.49	$ 0.46	$ 1.34	$ 0.38	$ 0.59	$ 1.92	$ 0.46	$ 0.42
Funds from operations per common share								
Continuing operations	$ 1.22	$ 1.16	$ 1.30	$ 1.09	$ 1.19	$ 1.03	$ 1.18	$ 1.15
Discontinued operations	—	—	0.05	0.06	0.11	0.12	0.16	0.15
Property-disposition gains	—	—	0.92	0.20	0.17	1.91	—	—
	$ 1.22	$ 1.16	$ 2.27	$ 1.35	$ 1.47	$ 3.06	$ 1.34	$ 1.30

Operating income from current commercial properties for the current quarter ended June 30, 2008 has modestly increased since the first quarter ended March 31, 2008 due to higher occupancy rates. The second quarter of 2007 included $2.8 million of non-recurring fees earned on the termination of a Toronto lease.

Net income increased during the current quarter ended June 30, 2008 from the first quarter ended March 31, 2008 primarily due to continual growth in same store revenues and higher loan and investment income, offset by higher interest expense and depreciation and amortization.

PART III – RISKS AND UNCERTAINTIES

BPO Properties' financial results are affected by the performance of our operations and various external factors influencing the specific sectors and geographic locations in which we operate, as well as macroeconomic factors such as economic growth, inflation, and interest rates; regulatory requirements and initiatives; and litigation and claims that arise in the normal course of business.

Our strategy is to invest in premier assets that generate sustainable streams of cash flow. Although high-quality assets may initially generate lower returns on capital, we believe that the sustainability and future growth of their cash flows is more assured over the long term, and as a result, warrant higher valuation levels. We also believe that the high quality of our asset base protects the Company against future uncertainty and enables us to invest with confidence when opportunities arise.

The following is a review of the material factors and the potential impact these factors may have on the Company's business operations. A more detailed description of the business environment and risks is contained in our Annual Information Form which is posted on our Web site at www.bpoproperties.com.

PROPERTY-RELATED RISKS

Our strategy is to invest in high-quality core office properties as defined by the physical characteristics of the asset and, more importantly, the certainty of receiving rental payments from large corporate tenants (with investment-grade credit ratings – see "Credit Risk" below) that these properties attract. Nonetheless, we remain exposed to certain risks inherent in the core office-property business.

Commercial property 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 costs of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords with competitive space, and our ability 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. Our core office properties are subject to mortgages which require substantial debt service payments. If we become 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. We believe the stability and long-term nature of our contractual revenues effectively mitigates these risks.

As owners and managers of premier office properties, lease rollovers also present a risk factor, as 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. Refer to "Lease Rollover Risk" on page 28 of this MD&A for further details.

INTEREST RATE AND FINANCING RISK

We attempt to stagger the maturities of our mortgage portfolio evenly over a 10-year time horizon. We believe that this strategy will most effectively manage interest rate risk.

As outlined under "Capital Resources and Liquidity," on page 18 of this MD&A, we have an ongoing obligation to access debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to us or on any terms at all. Our strategy to stagger the maturities of our mortgage portfolio attempts to mitigate our exposure to excessive amounts of debt maturing in any one year.

Approximately 18% of the Company's outstanding commercial and development property debt at June 30, 2008 is floating rate debt (December 31, 2007 – 36%). The effect of a 25 basis point increase in interest rates on interest expense relating to our floating rate debt, all else being equal, is an increase in interest expense, net of taxes of $0.3 million on an annual basis or approximately $0.01 per share. In addition, the Company has $125.0 million (December 31, 2007 – $262.1 million) of its loan receivable balances at June 30, 2008 subject to variable interest rates. The effect of a 25 basis point decrease in interest rates on interest income relating to our variable rate loan receivable, all else being equal, is a decrease in interest income, net of taxes of $0.2 million, on an annual basis or approximately $0.01 per share. The analysis does not reflect the impact a changing interest rate environment could have on our overall performance, and as a result, it does not reflect the actions management may take in such an environment.

CREDIT RISK

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. We mitigate this risk by ensuring that our tenant mix is diversified and by limiting our exposure to any one tenant. We also maintain a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently, no one tenant represents more than 12.6% of total leasable area or 10.0% of tenant receivables.

We attempt to mitigate our credit risk by signing long-term leases with tenants who have investment-grade credit ratings. Additional discussion of this strategy is discussed on page 8 of this MD&A.

The following list shows the largest tenants by leasable area in our portfolio and their respective lease commitments:

Tenant	Location	Year of Expiry[1]	000's Sq. Ft.[2]	% of Sq. Ft.[2]	Credit Rating[3]
Government of Canada (PWGSC)	Various	2013	1,868	12.6	AAA
Bank of Montreal/Nesbitt Burns	Toronto, Ottawa, Calgary	2018	1,133	7.6	A+
Petro-Canada	Calgary	2013	944	6.4	BBB
Imperial Oil	Calgary	2011	633	4.3	AAA
Talisman Energy	Calgary	2015	527	3.6	BBB+
Enbridge Inc.	Calgary, Edmonton	2015	447	3.0	A-
RBC Financial Group	Toronto, Calgary, Vancouver	2023	438	3.0	AA-
Canadian Natural Resources	Calgary	2011	305	2.1	BBB
CIBC	Toronto, Calgary	2034	281	1.9	A+
EnCana Corporation	Calgary	2014	241	1.6	A-
Manufacturers Life Insurance	Toronto	2013	169	1.1	AAA
Amdocs Canada Inc.	Toronto	2012	149	1.0	BBB
Lombard Insurance	Toronto	2012	134	0.9	BBB+
Westcoast Energy	Calgary, Vancouver	2012	132	0.9	BBB+
HSBC Of Canada	Toronto	2011	109	0.7	AA
National Bank of Canada	Toronto, Ottawa	2013	96	0.6	A
Xstrata (Falconbridge)	Toronto	2017	81	0.5	BBB+
Other investment-grade	Various	Various	515	3.5	BBB- or higher
			8,202	55.3	
Government Agencies and Other					
Bennett Jones	Toronto, Calgary	2013	326	2.2	
Osler, Hoskin & Harcourt	Toronto	2015	270	1.8	
Fraser Milner Casgrain	Toronto, Calgary	2010	222	1.5	
The Hudson's Bay Company	Toronto	2009	209	1.4	
CI Investments Inc.	Toronto	2012	195	1.3	
Toronto Stock Exchange	Toronto	2018	179	1.2	
Gowlings Canada Inc.	Toronto	2020	170	1.1	
Bell Canada	Calgary	2012	135	0.9	
Davies Ward Philips Vineberg	Toronto	2013	119	0.8	
PricewaterhouseCoopers	Calgary	2015	95	0.6	
Precision Drilling Corp.	Calgary	2011	93	0.6	
Other government agencies	Various	Various	203	1.4	
Total			10,418	70.2	

(1) Weighted average based on square feet.

(2) Prior to considering partnership interests in partially owned properties.

(3) From Standard & Poor's, Moody's, or Dominion Bond Rating Service.

Because we invest in mortgages from time to time, further credit risks arise in the event that borrowers default on the repayment of their mortgages to us. We endeavor to ensure that adequate security has been provided in support of such mortgages.

LEASE ROLLOVER RISK

Lease rollover risk arises from the possibility that we may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon early lease expiry. We attempt to stagger the lease expiry profile so that we are not faced with disproportionate amounts of space expiring in any one year; approximately 11.8% of our leases mature annually over the next five years. Our portfolio has a weighted-average lease life of six years. We further mitigate this risk by maintaining a diversified portfolio mix by geographic location and by proactively leasing space in advance of its contractual expiry.

The following table sets out lease expiries, by square footage, for our portfolio at June 30, 2008:

(000's Sq. Ft.)	Currently Available	Remainder 2008	2009	2010	2011	2012	2013	2014	2015 & Beyond	Parking	Total
Toronto	185	58	450	490	288	804	1,241	144	2,565	829	7,054
Ottawa	6	43	38	3	4	6	1,098	9	543	1,030	2,780
Calgary	5	104	223	350	1,363	480	1,382	99	1,675	1,023	6,704
Edmonton	1	1	18	135	57	30	9	24	315	121	711
Vancouver	15	3	22	41	73	62	84	5	284	264	853
Other	—	1	—	—	—	—	2	—	—	—	3
Total	212	210	751	1,019	1,785	1,382	3,816	281	5,382	3,267	18,105
% of total	1.4%	1.4%	5.1%	6.9%	12.0%	9.3%	25.7%	1.9%	36.3%	—	100.0%

ENVIRONMENTAL RISKS

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide that we 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 our ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against us. We are not aware of any material noncompliance with environmental laws at any of our properties nor are we aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of our properties or any pending or threatened claims relating to environmental conditions at our properties.

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

OTHER RISKS AND UNCERTAINTIES

Real estate is relatively illiquid. Such illiquidity may limit our ability to vary our 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 we operate.

Our commercial properties generate a relatively stable source of income from contractual tenant rent 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.

Although the outlook for commercial office rents is positive in the long term, 2008 may not provide the same level of increases in rental rates on renewal as compared with previous years. We are, however, substantially protected against short-term market conditions, as most of our leases are long-term in nature with an average term of six 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 US$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. The Company 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 all the Company's properties.

DERIVATIVE FINANCIAL INSTRUMENTS

We utilize derivative financial instruments from time to time, primarily to manage financial risks, including interest rate, commodity and foreign-exchange risks. Hedge accounting is applied where the derivative is designated as a hedge of a specific exposure and there is reasonable assurance the hedge will be effective. Realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income as an offset to the hedged item in the period the underlying asset, liability or anticipated transaction to which they relate arise.

Financial instruments that are not designated as hedges are carried at estimated fair values, and gains and losses arising from changes in fair values are recognized in income as a component of interest and other income in the period the changes occur. The use of non-hedging derivative contracts is governed by documented risk management policies and approved limits.

During the second quarter of 2008, our use of derivative financial instruments was limited to foreign-exchange contracts, forward gas contracts and interest rate caps. Unrealized gains and losses, representing the fair value of such contracts, are determined in reference to the appropriate forward rate for each contract at June 30, 2008 and are reflected in receivables and other assets or accounts payable and other liabilities, as appropriate, on the consolidated balance sheet.

At June 30, 2008, we had foreign-exchange contracts to sell a notional amount of US$21.0 million (December 31, 2007 – US$21.0 million) at an exchange rate of US$1.00 = C$1.01, maturing in September 2008, which have not been designated as hedges for financial reporting purposes. The aggregate fair value of these contracts at June 30, 2008 was $nil and is reflected in loans receivable in the consolidated balance sheets and in loans and investment income in the consolidated statements of income and comprehensive income.

The primary risks associated with our use of derivatives are credit risk and price risk. Credit risk is the risk that losses will be incurred from the default of the counterparty on its contractual obligations. The use of derivative contracts is governed by documented risk-management policies and approved limits, which includes an evaluation of the creditworthiness of counterparties, as well as managing the size, diversification and maturity of the portfolio. Price risk is the risk that we will incur losses from derivatives from adverse changes in foreign-exchange rates. We mitigate price risk by entering only into derivative transactions where we have determined a significant offset exists between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item.

PART IV – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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 19 of the second quarter 2008 consolidated interim 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 consolidated financial statements for the year ended December 31, 2007 and do not differ materially at June 30, 2008. Additional disclosures required by Section 3862 have been made to the second quarter 2008 consolidated interim financial statements. The adoption of Section 3863 did not have any impact on the Company's second quarter 2008 consolidated interim financial statements.

FUTURE ACCOUNTING POLICY CHANGES

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 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. The Company is currently evaluating the impact of the adoption of Section 3064 on its consolidated financial statements.

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 values, the allocation of the purchase prices to components of commercial properties and businesses acquired, the useful lives for depreciation and amortization, the Company's ability to utilize tax losses and the rates at which those losses will be realized, the effectiveness of hedges, and fair value of financial instruments for disclosure purposes.

RELATED-PARTY TRANSACTIONS

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

The Company has entered into two service-support agreements with Brookfield Properties Ltd. ("BPL"), a subsidiary of BPC (one agreement dated October 21, 2005, relating to the former O&Y properties and the other dated January 1, 2006, in relation to the other properties owned by the Company as of such date). The purpose of the agreements is to provide the services of certain personnel and consultants as well as such facilities of BPL as are necessary to help the Company provide the services and facilities required of it pursuant to property-management services to which it is a party. The fees paid to BPL are on a cost-recovery basis and totaled $3.3 million and $6.9 million during the three and six months ended June 30, 2008, respectively (three and six months ended June 30, 2007 – $2.5

million and $5.7 million). The services-support agreements also permit the Company to charge costs and expenses payable by the Company, which are attributable to BPL on a cost-recovery basis. Total costs charged to BPL during the three and six months ended June 30, 2008 totaled $0.2 million and $0.4 million, respectively (three and six months ended June 30, 2007 – $0.1 million and $0.2 million).

Included in loans receivable is a $125.0 million (December 31, 2007 - $nil) on-demand deposit placed with BPC on June 30, 2008 (note 6). On June 30, 2008, BPC fully repaid an on-demand deposit placed in the fourth quarter of 2007 for $220.0 million (December 31, 2007 - $220.3 million). For the three and six months ended June 30, 2008, interest income of $1.9 million and $4.6 million was recorded, compared to $nil and $nil during the same periods in 2007.

Included in rental revenues during the three and six months ended June 30, 2008 are amounts received from BAM and its affiliates of $0.1 million and $0.2 million (three and six months ended June 30, 2007 - $0.1 million and $0.2 million). In addition, we have certain arrangements with BAM and its affiliates to acquire insurance in the normal course and at market rates or at cost. These fees are based on a percentage of the annual premiums paid.

DISTRIBUTIONS

Distribution paid by the Company during the first and second quarters of 2008 and the year 2007 are as follows:

	Three months ended Jun. 30, 2008	Three months ended Mar. 31, 2008	Year ended December 31, 2007
Common shares[1]	$ 0.15	$ 0.15	$ 0.60
Preferred shares			
Series G	0.26	0.27	1.04
Series J	0.25	0.27	1.04
Series K	4,819.04	5,826.58	24,662.88
Series M	0.25	0.27	1.04
Series N	0.24	0.29	1.23

[1] *Excludes the special common share dividend of $7.25 per share for the three months ended June 30, 2008.*

ADDITIONAL INFORMATION

A supplementary information package with more detailed financial information is posted on BPO Properties' website at www.bpoproperties.com and should be read in conjunction with this Interim Report.

Bryan K. Davis
Senior Vice President and Chief Financial Officer
August 5, 2008

Consolidated Balance Sheets

(Millions)	Notes	Jun. 30, 2008 (Unaudited)	Dec. 31, 2007 (Audited)
Assets			
Commercial properties	4	$ 1,342.6	$ 1,351.6
Commercial developments	5	577.4	452.5
Loans receivable	6	146.5	283.5
Intangible assets	7	35.4	40.2
Tenant receivables and other assets	8	71.3	66.0
Cash and cash equivalents	9	51.5	37.7
Assets related to discontinued operations	10	—	4.2
		$ 2,224.7	$ 2,235.7
Liabilities			
Commercial and development property debt	11	$ 1,109.8	$ 965.5
Intangible liabilities	12	78.4	85.0
Accounts payable and other liabilities	13	137.9	100.4
Future income tax liabilities	14	46.1	41.3
Liabilities related to discontinued operations	10	—	3.0
Shareholders' equity	15	852.5	1,040.5
		$ 2,224.7	$ 2,235.7

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Income and Comprehensive Income

(Unaudited)		Three months ended Jun. 30		Six months ended Jun. 30	
(Millions, except per-share amounts)	Notes	2008	2007	2008	2007
Commercial Properties					
Revenue		$ 86.4	$ 83.3	$ 170.1	$ 164.0
Expenses		37.6	34.5	73.6	70.2
		48.8	48.8	96.5	93.8
Loans and investment income		4.8	2.0	8.4	4.9
		53.6	50.8	104.9	98.7
Expenses					
Interest expense	5	9.8	7.4	18.6	15.7
General and administrative expenses	5	5.2	5.1	10.3	10.9
		38.6	38.3	76.0	72.1
Depreciation and amortization		13.0	14.4	25.6	29.3
Income taxes	14	7.8	8.1	15.3	14.6
Net income from continuing operations		17.8	15.8	35.1	28.2
Discontinued operations	10	—	5.3	—	52.2
Net income and comprehensive income		$ 17.8	$ 21.1	$ 35.1	$ 80.4
Net income per common share					
Continuing operations		$ 0.49	$ 0.40	$ 0.95	$ 0.67
Discontinued operations		—	0.19	—	1.84
Total	15	$ 0.49	$ 0.59	$ 0.95	$ 2.51

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	2008	2007	2008	2007
Preferred shares				
Balance at beginning of period and end of period	$ 381.7	$ 381.7	$ 381.7	$ 381.7
Common shares				
Balance at beginning of period and end of period	78.8	78.9	78.8	78.9
Retained earnings				
Balance at beginning of period	588.7	529.1	580.0	478.4
Net income	17.8	21.1	35.1	80.4
Preferred share dividends	(3.7)	(4.3)	(8.0)	(8.8)
Common share dividends	(210.8)	(4.3)	(215.1)	(8.6)
Cumulative impact of changes in accounting policies, net of taxes of $nil (2007 - $0.1 million)	—	—	—	0.2
Balance at end of period	392.0	541.6	392.0	541.6
Accumulated other comprehensive income ("AOCI")	—	—	—	—
Retained earnings and AOCI	392.0	541.6	392.0	541.6
Shareholders' equity at end of period	$ 852.5	$ 1,002.2	$ 852.5	$ 1,002.2

See accompanying notes to the consolidated interim financial statements.

Consolidated Statements of Cash Flows

(Unaudited)		Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	Notes	2008	2007[1]	2008	2007[1]
Operating activities					
Net income		$ 17.8	$ 21.1	$ 35.1	$ 80.4
Add (deduct):					
Depreciation and amortization		13.0	15.5	25.6	31.5
Future income taxes		2.4	7.4	4.8	20.0
Property disposition gains		—	(4.9)	—	(59.5)
Amortization of above/below market in-place operating leases		(3.2)	(3.6)	(6.5)	(7.2)
Amortization of deferred debt financing costs		1.2	0.3	2.1	0.5
Loan discount amortization and foreign exchange		0.2	1.8	(0.4)	1.4
Deferred leasing costs		(0.7)	(0.6)	(0.9)	(1.8)
Decrease (increase) in receivables		(5.8)	2.2	(2.9)	(1.2)
Increase in other assets		(1.5)	(3.7)	(1.4)	(6.4)
Increase (decrease) in accounts payable and other liabilities		17.8	(8.0)	34.7	(1.0)
Cash flows provided by operating activities		41.2	27.5	90.2	56.7
Investing activities					
Development and redevelopment expenditures		(72.2)	(28.7)	(122.6)	(46.2)
Capital expenditures		(5.1)	(3.8)	(8.5)	(5.2)
Commercial property tenant improvements		(1.9)	(1.7)	(2.3)	(3.8)
Acquisition of properties		—	(5.0)	—	(5.0)
Dispositions of properties, net	20	3.3	6.6	3.3	94.6
Advances to related parties	6	(125.0)	—	(125.0)	—
Repayments from related parties	6	220.1	—	220.3	—
Loans receivable - collections		41.8	—	41.8	40.8
Cash flows (used in) provided by investing activities		61.0	(32.6)	7.0	75.2
Financing activities					
Commercial and development property debt amortization		(5.5)	(5.2)	(8.1)	(8.1)
Commercial and development property debt repayments		(232.0)	—	(232.0)	(49.2)
Commercial and development property debt arranged		344.3	—	381.0	—
Amortization of debt premiums		(0.6)	(0.7)	(1.2)	(1.3)
Common share dividends paid		(210.8)	(4.3)	(215.1)	(8.6)
Preferred share dividends paid		(3.7)	(4.3)	(8.0)	(8.8)
Cash flows (used in) provided by financing activities		(108.3)	(14.5)	(83.4)	(76.0)
(Decrease)/increase in cash and cash equivalents		(6.1)	(19.6)	13.8	55.9
Cash and cash equivalents, beginning of period		57.6	103.2	37.7	27.7
Cash and cash equivalents, end of period		$ 51.5	$ 83.6	$ 51.5	$ 83.6

[1] *Certain comparative information has been restated to conform with current year presentation.*

See accompanying notes to the consolidated interim financial statements.

Notes to the Consolidated Financial Statements

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

Reference is made to the most recently-issued Annual Report of BPO Properties Ltd. (the "Company" or "BPO Properties") which includes information necessary or useful to understanding the Company's businesses and financial statement presentation. In particular, the Company's significant accounting policies and practices were presented as Note 1 and Note 2 to the Consolidated Financial Statements included in that report, and have been consistently applied in the preparation of these interim financial statements except for the changes in accounting policies described in Note 2. Financial information in this report reflects any adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to reflect a fair statement of results for the interim periods in accordance with Canadian generally accepted accounting principles.

The results reported in these consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain prior period amounts have been reclassified to conform to the current period's presentation as a result of assets held for sale (see Note 10).

NOTE 2: 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 19 of the second quarter 2008 consolidated interim 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 consolidated financial statements for the year ended December 31, 2007 and do not differ materially at June 30, 2008. Additional disclosures required by Section 3862 have been made to the second quarter 2008 consolidated interim financial statements. The adoption of Section 3863 did not have any impact on the Company's second quarter 2008 consolidated interim financial statements.

NOTE 3: FUTURE ACCOUNTING POLICY CHANGES

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 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. The Company is currently evaluating the impact on the adoption of Section 3064 on its consolidated financial statements.

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.

NOTE 4: COMMERCIAL PROPERTIES

A breakdown of commercial properties is as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Commercial properties		
Land	$ 153.5	$ 153.5
Building and improvements	1,404.2	1,412.2
Total commercial properties	1,557.7	1,565.7
Less: Accumulated depreciation	(215.1)	(214.1)
Total	$ 1,342.6	$ 1,351.6

NOTE 5: COMMERCIAL DEVELOPMENTS

Commercial developments include commercial land which represents developable land and construction costs. The Company capitalizes interest, development costs and property taxes and other to commercial developments. During the three and six months ended June 30, 2008, the Company capitalized costs totaling $72.2 million and $122.6 million, respectively (compared to $28.7 million and $46.2 million during the same period in 2007). Included in this amount is $61.9 million and $101.9 million of construction and related costs (compared with $16.2 million and $25.4 million during the same period in 2007), $6.9 million and $14.2 million of interest capitalized (compared with $5.9 million and $11.4 million during the same period in 2007) and $3.4 million and $6.5 million of property taxes and other (compared with $6.6 million and $9.4 million during the same period 2007) related to commercial developments for the three and six months ended June 30, 2008.

NOTE 6: LOANS RECEIVABLE

The components of loans receivable are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Loans receivable	$ 146.2	$ 282.9
Accrued interest	0.3	0.6
Total	$ 146.5	$ 283.5

Loans receivables are classified as loans and receivables under CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" and are measured at amortized cost.

At June 30, 2008, the balance of loans receivable includes the following:

- $21.2 million (December 31, 2007 – $20.8 million) repayable in U.S. dollars of US$20.9 million (December 31, 2007 – US$20.9 million). For the three and six months ended June 30, 2008, interest income related to this loan of $0.6 million and $1.2 million was recorded, compared with $0.6 million and $1.3 million during the same period in 2007. This loan receivable bears interest at 11.22% per annum and matures in 2011. As of June 30, 2008, accrued interest income of $0.2 million (December 31, 2007 - $nil) was recorded.
- $125.0 million (December 31, 2007 - $nil) on-demand deposit was placed with the Company's parent, Brookfield Properties Corporation ("BPC") on June 30, 2008. This deposit bears interest at 100 basis points over short-term government paper rates. Interest income related to this deposit of $nil was recorded during the second quarter of 2008. On June 30, 2008, BPC fully repaid an on-demand deposit placed in the fourth quarter of 2007 for $220.0 million (December 31, 2007 - $220.3 million). For the three and six months ended June 30, 2008, interest income of $1.9 million and $4.6 million was recorded, compared to $nil and $nil during the same period in 2007.

During the three months ended June 30, 2008, the Company received payment of the full outstanding balance of the O&Y Acquisition Facility ("O&Y Debt") for $41.8 million (December 31, 2007 - $41.8 million).

For the three and six months ended June 30, 2008, interest income of $2.6 million and $6.5 million, respectively compared with $0.6 and $1.3 million during the same period in 2007, was recorded on loans receivable.

The Company has $125.0 million (December 31, 2007 – $262.1 million) of its loan receivable balances at June 30, 2008 subject to variable interest rates. The effect of a 25 basis point decrease in interest rates on interest income relating to our variable rate loan receivable, all else being equal, is a decrease in interest income net of taxes of $0.2 million on an annual basis or approximately $0.01 per share. The analysis does not reflect the impact a changing interest rate environment could have on our overall performance, and as a result, it does not reflect the actions management may take in such an environment.

Credit risk related to loans receivables arises from the possibility that borrowers may default on the repayment of their loans. Because the Company invests in loans and mortgages from time to time, further credit risks arise in the event that borrowers default on the repayment of their loans and mortgages to the Company.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity prices. The Company utilizes derivative financial instruments primarily to manage these risks. Hedge accounting is applied where the derivative is designated as a hedge of a specific exposure and there is reasonable assurance the hedge will be effective. Realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income as an offset to the hedged item in the period the underlying asset, liability, or anticipated transaction to which they relate arise.

The Company has a loan receivable denominated in U.S. dollars. At June 30, 2008, the Company had foreign-exchange contracts to sell a notional amount of US$21.0 million (December 31, 2007 – US$21.0 million) at a weighted average exchange rate of US$1.00 = C$1.01, maturing in September 2008, which have not been designated as hedges for financial reporting purposes. The aggregate fair value of these contracts at June 30, 2008 was $nil and is reflected in loans receivable in the consolidated balance sheets and in loans and investment income in the consolidated statements of income and comprehensive income. The Company believes that it is not exposed to significant currency risk as a result of having the foreign- exchange contracts.

NOTE 7: INTANGIBLE ASSETS

Intangible assets are lease origination costs, tenant relationships and above-market in-place operating leases assumed on acquisitions, net of related accumulated amortization. The components of intangible assets are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Intangible assets		
Lease-origination costs	$ 51.8	$ 57.1
Tenant relationships	7.3	7.6
Above-market in-place operating leases	2.1	2.3
	61.2	67.0
Less accumulated amortization		
Lease-origination costs	(23.3)	(24.6)
Tenant relationships	(1.7)	(1.4)
Above-market in-place operating leases	(0.8)	(0.8)
Total	$ 35.4	$ 40.2

NOTE 8: TENANT RECEIVABLES AND OTHER ASSETS

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Tenant and other receivables	$ 34.0	$ 32.0
Straight-line rent receivable	17.7	16.5
Prepaid expenses and other assets	18.5	16.4
Restricted cash	1.1	1.1
Total	$ 71.3	$ 66.0

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

These receivables are generally short-term loans of a trade nature. The carrying value of tenant and other receivables approximates fair value due to their short-term nature.

During the quarter ended June 30, 2008, the Company recorded $0.6 million (compared to $0.6 million on December 31, 2007) as a reserve against uncollectible tenant receivables.

Credit risk related to tenant and other receivables, including straight-line rent 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 and by limiting its exposure to any one tenant. The Company maintains a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently no one tenant represents more than 12.6% of total leasable area and 10.0% of tenant receivables. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings. On average, 11.8% of the Company's leases mature annually over the next five years.

Cash and deposits are considered restricted when they are subject to contingent rights of third parties. As of June 30, 2008, restricted cash was $1.1 million (compared with $1.1 million on December 31, 2007).

NOTE 9: CASH AND CASH EQUIVALENTS

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

For the three and six months ended June 30, 2008, interest income of $0.9 million and $1.7 million, respectively was recorded on cash and cash equivalents, compared with $1.4 million and $2.1 million during the same period in 2007. Cash and cash equivalents invested in overnight term deposits earned an average interest rate of 3.1% during the quarter.

NOTE 10: DISCONTINUED OPERATIONS

Properties that meet the criteria of CICA Handbook Section 3475, “Disposal of Long-Lived Assets and Discontinued Operations,” are classified as discontinued operations. Any long lived assets related to the property are recorded at the lower of carrying amount or fair value less estimated costs to sell and are not depreciated while classified as held for sale. The results of operations and balance sheet items of any property that has been identified as discontinued operations are reported separately if the operations of the property will be eliminated as a result of the disposal, and the Company will not have any significant continuing involvement in the operations of the property after the disposal transaction. Comparative amounts are also reclassified.

During the second quarter of 2008, the Company sold 4342 Queen Street in Niagara Falls which was classified as a discontinued operation in the fourth quarter of 2007. The Company recognized a gain of $nil for its 25% interest. There were no properties held for sale as of June 30, 2008. The 2007 results included the gains on disposition of seven non-core assets in Toronto, Ottawa and Calgary.

The components of assets and liabilities related to discontinued operations are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Assets related to discontinued operations		
Commercial properties	$ —	$ 3.2
Intangible assets	—	0.1
Tenant receivables and other assets	—	0.9
Total assets related to discontinued operations	—	4.2
Liabilities related to discontinued operations		
Accounts payable and other liabilities	—	3.0
Total liabilities related to discontinued operations	$ —	$ 3.0

The following table summarizes the income and gains from discontinued operations:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions, except per-share amounts)	2008	2007	2008	2007
Revenue	$ —	$ 4.9	$ 0.1	$ 12.3
Operating expenses	—	(1.3)	(0.1)	(4.4)
	—	3.6	—	7.9
Interest expense	—	(0.6)	—	(1.5)
	—	3.0	—	6.4
Depreciation and amortization	—	(1.1)	—	(2.2)
Income from discontinued operations prior to gains and taxes	—	1.9	—	4.2
Gains on sale of discontinued operations	—	4.9	—	59.5
Income taxes related to discontinued operations	—	(1.5)	—	(11.5)
Net income from discontinued operations	$ —	$ 5.3	$ —	$ 52.2
Net income from discontinued operations – per share	$ —	$ 0.19	$ —	$ 1.84

NOTE 11: COMMERCIAL AND DEVELOPMENT PROPERTY DEBT

Commercial property mortgages are secured by individual properties generally without recourse to the Company, while development loans are secured by the individual project with recourse. Approximately 79% of the Company's commercial and development property debt is due after 2009.

(Millions, except interest rate data)	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate (%) at Jun. 30, 2008
Remainder of 2008	$ 7.7	$ 126.8	$ 134.5	6.9
2009	10.4	89.8	100.2	7.4
2010	13.3	—	13.3	—
2011	12.2	99.1	111.3	7.5
2012	6.8	380.9	387.7	5.5
2013 and thereafter	21.7	341.1	362.8	6.2
Total	$ 72.1	$ 1,037.7	$ 1,109.8	6.2

Commercial and development property debt is classified as other financial liabilities under CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" and is measured at amortized cost.

The weighted-average interest rate at June 30, 2008 was 6.2% (compared with 6.9% on December 31, 2007).

During the second quarter of 2008, the Company completed new financings for the following five properties:

(Millions)		Amount (BPO's Interest)	Interest Rate (%)	Maturity
2 Queen Street East, Toronto	New financing	$ 28.6	5.6	December 2017
Altius Centre, Calgary	New financing	20.5	5.6	December 2017
Canadian Western Bank Place, Edmonton	New financing	14.5	5.6	December 2017
Royal Centre, Vancouver	New financing	122.0	5.0	May 2012
Hudson's Bay Centre, Toronto	New financing	110.0	5.2	May 2013

The Company obtained new financings for 2 Queen Street East in Toronto, Altius Centre in Calgary and Canadian Western Bank Place in Edmonton for an aggregate net proceeds of $63.6 million, at BPO Properties' interest. These new financings are nonrecourse to the Company.

The Company also obtained permanent financing for Royal Centre in Vancouver for $122.0 million. The funds were used to repay the prior bridge facility of $132.0 million. This new financing is nonrecourse to the Company.

During the quarter, the Company fully repaid the $100.0 million debt maturing on Hudson's Bay Centre in Toronto and subsequently entered into a new financing arrangement for $110.0 million, generating $10.0 million of net proceeds. The new debt has limited recourse to the Company for up to $15.0 million.

Included in commercial and development property debt at June 30, 2008 are $7.1 million of net deferred financing costs (December 31, 2007 - $8.8 million) and $5.2 million of premiums related to mortgages assumed upon acquisition (December 31, 2007 - $6.3 million).

For the three and six months ended June 30, 2008, interest expense of $15.0 million and $29.7 million, respectively (compared with $13.1 million and $26.7 million during the same period in 2007) was recorded on commercial and development property debt, of which $6.9 million and $14.2 million, respectively (compared with $5.9 million and $11.4 million during the same period in 2007) was capitalized to commercial developments.

Approximately 18% of the Company's outstanding commercial and development property debt at June 30, 2008 is floating rate debt (December 31, 2007 – 36%). The effect of a 25 basis point increase in interest rates on interest expense relating to floating rate debt, all else being equal, is an increase in interest expense, net of taxes of $0.3 million on an annual basis or approximately $0.01 per share.

Interest rate risk arises when the fair value or future cash flows of commercial and development property debt fluctuate because of changes in market interest rates. 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 attempts to stagger the maturities of its borrowings evenly over a 10-year horizon as well as obtaining fixed-rate debts as the means of managing interest rate risk. The Company has an ongoing obligation to access debt

markets to refinance maturing debt as it comes due. The Company's strategy to stagger its borrowing maturities attempts to mitigate the Company's exposure to excessive amounts of debt maturing in any one year. The Company has debt on two of its properties maturing during the remainder of 2008 in the amount of $127.0 million; this debt is expected to be refinanced in the normal course of business.

NOTE 12: INTANGIBLE LIABILITIES

Included in intangible liabilities are below-market tenant leases and above-market ground leases assumed on acquisitions, net of related accumulated amortization. The components of intangible liabilities are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Intangible liabilities		
Below-market in-place operating leases	$ 67.1	$ 68.3
Above-market ground lease obligations	45.8	45.8
	112.9	114.1
Less accumulated amortization		
Below-market in-place operating leases	(27.7)	(23.6)
Above-market ground lease obligations	(6.8)	(5.5)
Total	$ 78.4	$ 85.0

NOTE 13: ACCOUNTS PAYABLE AND OTHER LIABILITIES

The components of the Company's accounts payable and other liabilities are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Accounts payable and accrued liabilities	$ 131.7	$ 95.3
Accrued interest	6.2	5.1
Total	$ 137.9	$ 100.4

Financial liabilities in accounts payable and other liabilities are classified as other financial liabilities under CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" and are measured at amortized cost.

These payables are generally short-term loans of a trade nature. The carrying value of accounts payable and other liabilities approximates fair value due to their short-term nature.

NOTE 14: FUTURE INCOME TAXES

Future income tax liabilities consist of the following:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Future income tax assets related to operating and capital losses	$ (5.8)	$ (16.6)
Future income tax liabilities related to differences between tax and book basis	51.9	57.9
Total	$ 46.1	$ 41.3

At June 30 2008, the Company had net operating loss carryforwards of approximately $26.6 million (December 31, 2007 – $54.7 million) which are available to reduce taxable income of future years.

The benefit of the tax losses, net of a valuation allowance, has been reflected in the future income tax assets. The amount of noncapital losses and deductible temporary differences, for which no future income tax assets have been recognized, is $158.1 million (December 31, 2007 - $158.1 million).

The components of income tax expense are as follows:

Continuing operations

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	2008	2007	2008	2007
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2007 – 34.0%)	$ 8.1	$ 8.1	$ 16.2	$ 14.6
Decrease in income tax expense due to the following:				
Other	(0.3)	—	(0.9)	—
Total	$ 7.8	$ 8.1	$ 15.3	$ 14.6

Discontinued operations

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2007 – 34.0%)	$ —	$ 2.3	$ —	$ 21.6
Decrease in income tax expense due to the following:				
Nontaxable portion of capital gain	—	(0.8)	—	(10.1)
Total	$ —	$ 1.5	$ —	$ 11.5
Total income tax expense	$ 7.8	$ 9.6	$ 15.3	$ 26.1

The major components of income tax expense include the following:

(Millions)	Three months ended Jun. 30 2008	Three months ended Jun. 30 2007	Six months ended Jun. 30 2008	Six months ended Jun. 30 2007
Current tax expense	$ 5.4	$ 2.2	$ 10.5	$ 6.1
Future tax expense	2.4	7.4	4.8	20.0
Total	$ 7.8	$ 9.6	$ 15.3	$ 26.1

NOTE 15: SHAREHOLDERS' EQUITY

The components of shareholders' equity are as follows:

(Millions)	Jun. 30, 2008	Dec. 31, 2007
Preferred shares	$ 381.7	$ 381.7
Common shares	78.8	78.8
Retained earnings	392.0	580.0
AOCI	—	—
Total	$ 852.5	$ 1,040.5

Authorized share capital consists of 300,000 senior preferred shares, unlimited priority preferred shares, unlimited preferred shares issuable in series, unlimited common shares and unlimited non-voting equity shares. No senior preferred shares or priority preferred shares are issued and outstanding.

(a) Preferred shares

Details of the preferred shares issued by the Company are as follows:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Jun. 30, 2008	Dec. 31, 2007
Series G	1,805,489	70% of bank prime	$ 45.1	$ 45.1
Series J	3,816,527	70% of bank prime	95.4	95.4
Series K	300	30-day BA + 0.4%	150.0	150.0
Series M	2,847,711	70% of bank prime	71.2	71.2
Series N	800,000	30-day BA + 0.4%	20.0	20.0
Total			$ 381.7	$ 381.7

The redemption terms of the preferred shares issued by the Company are as follows:

(i) Series G preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate. The Company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(ii) Series J and M preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate for the previous quarter. The Company may, at its option, redeem the shares at a price of $25 per share plus arrears on any accrued and unpaid dividends.

(iii) Series K preferred shareholders are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The Company may, at its option, redeem the shares at a price of $500,000 per share plus an amount equal to all accrued and unpaid dividends.

(iv) Series N preferred shareholders are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The Company may, at its option, redeem the shares at $25 per share plus arrears on any accrued and unpaid dividends.

Preferred share dividends totaling $3.7 million and $8.0 million were paid during the three and six months ended June 30, 2008, respectively (three and six months ended June 30, 2007 - $4.3 million and $8.8 million).

(b) Common shares
Total common shares issued and outstanding at June 30, 2008 totaled 28.5 million (December 31, 2007 – 28.5 million) shares, which included 21.7 million (December 31, 2007 – 21.7 million) non-voting equity shares.

During the second quarter of 2008, the Company paid special common share dividends of $206.5 million (compared to $nil during the same period in 2007) or $7.25 per common share. Common share dividends totaling $4.3 million and $8.6 million were paid during the three and six months ended June 30, 2008, respectively (three and six months ended June 30, 2007 - $4.3 million and $8.6 million).

(c) Earnings per share
Net income available to common shareholders and weighted average common shares outstanding are calculated as follows:

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions – except per-share amounts)	2008	2007	2008	2007
Net income from continuing operations	$ 17.8	$ 15.8	$ 35.1	$ 28.2
Net income	17.8	21.1	35.1	80.4
Preferred share dividends	(3.7)	(4.3)	(8.0)	(8.8)
Net income from continuing operations available to common shareholders	14.1	11.5	27.1	19.4
Net income available to common shareholders	14.1	16.8	27.1	71.6
Weighted-average shares outstanding	28.5	28.5	28.5	28.5
Net income from continuing operations per common share	$ 0.49	$ 0.40	$ 0.95	$ 0.68
Net income per common share	$ 0.49	$ 0.59	$ 0.95	$ 2.51

There were no dilutive instruments outstanding.

NOTE 16: GUARANTEES, CONTINGENCIES AND OTHER

(a) In the normal course of operations, the Company and its consolidated subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions, lease-up of development properties, sales of assets, sales of services, securitization agreements, and underwriting and agency agreements.

(b) As of June 30, 2008, the Company has commitments totaling $191.0 million to third parties for the development projects of Bay Adelaide Centre, Toronto and Bankers Court, Calgary.

(c) The Company has previously entered into fixed gas purchase contracts with a third party gas supplier, which covers the period November 1, 2007 to October 31, 2008. As of June 30, 2008, the remaining commitment for the Company to purchase gas for its facilities was $0.6 million.

(d) The Company currently has guaranteed up to $60.0 million of a $420.0 million credit facility related to construction financing on the Bay Adelaide Centre.

(e) The Company currently has limited recourse for up to $15.0 million related to the Hudson's Bay Centre refinanced debt.

(f) The Company and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. The outcome of litigation and claims currently being pursued against the Company is not determinable. In the opinion of management, any liability that may arise from such contingencies would not have a materially adverse effect on the consolidated financial statements of the Company.

(g) The Company has insurance covering certain acts of terrorism for up to US$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. The Company 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 all the Company's properties.

NOTE 17: SEGMENTED INFORMATION

The Company has only one business segment; the ownership, development and management of commercial properties.

NOTE 18: RELATED PARTY TRANSACTIONS

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

The Company has entered into two service-support agreements with Brookfield Properties Ltd. ("BPL"), a subsidiary of BPC (one agreement dated October 21, 2005, relating to the former O&Y properties and the other dated January 1, 2006, in relation to the other properties owned by the Company as of such date). The purpose of the agreements is to provide the services of certain personnel and consultants as well as such facilities of BPL as are necessary to help the Company provide the services and facilities required of it pursuant to property-management services to which it is a party. The fees paid to BPL are on a cost-recovery basis and totaled $3.3 million and $6.9 million during the three and six months ended June 30, 2008, respectively (three and six months ended June 30, 2007 – $2.5 million and $5.7 million). The services-support agreements also permit the Company to charge costs and expenses payable by the Company, which are attributable to BPL on a cost-recovery basis. Total costs charged to BPL during the three and six months ended June 30, 2008 totaled $0.2 million and $0.4 million, respectively (three and six months ended June 30, 2007 – $0.1 million and $0.2 million).

Included in loans receivable is a $125.0 million (December 31, 2007 - $nil) on-demand deposit placed with BPC on June 30, 2008 (note 6). On June 30, 2008, an on-demand deposit of $220.1 million with BPC (December 31, 2007 - $220.3 million) was fully repaid to the Company. For the three and six months ended June 30, 2008, interest income related to this loan of $1.9 million and $4.6 million respectively, was recorded during the second quarter of 2008, compared with $nil and $nil during the same periods in 2007.

Included in rental revenues during the three and six months ended June 30, 2008 are amounts received from Brookfield Asset Management Inc. ("BAM"), the ultimate parent of the Company, and its affiliates of $0.1 million and $0.2 million (three and six months ended June 30, 2007 - $0.1 million and $0.2 million). In addition, the Company has certain arrangements with BAM and its affiliates to acquire insurance in the normal course and at market rates or at cost. These fees are based on a percentage of the annual premiums paid.

NOTE 19: CAPITAL MANAGEMENT AND LIQUIDITY

The Company employs a broad range of financing strategies to facilitate growth and manage financial risk, with particular emphasis on the overall reduction of the weighted average cost of capital, in order to enhance returns for common shareholders.

The Company continually strives to reduce its weighted average cost of capital and improve common shareholders' equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at June 30, 2008, the Company's weighted average cost of capital, assuming a 12.0% return on equity, was 8.0%. The following schedule details the components of the Company's capital as at June 30, 2008 and the related costs thereof:

	Cost of Capital[1]		Underlying Value[2]	
(Millions)	Jun. 30, 2008	Dec. 31, 2007	Jun. 30, 2008	Dec. 31, 2007
Liabilities				
Commercial and development property debt	6.2%	6.9%	$ 1,109.8	$ 965.5
Shareholders' equity				
Preferred shares	3.9%	4.8%	381.7	381.7
Common shares[3]	12.0%	12.0%	1,466.8	1,718.2
Total[4]	8.0%	8.8%	$ 2,958.3	$ 3.065.4

(1) As a percentage of average book value.

(2) Underlying value of liabilities represents the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of BPO Properties' common shares. Underlying value of preferred equity is based on the book value of preferred shares.

(3) Determined on a market value basis.

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

Commercial and development property debt

The Company's commercial property debt is primarily fixed-rate and non-recourse to the Company, thereby reducing the overall financial risk to the Company. These financings are typically structured on a loan-to-appraised value basis of up to 70%. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces equity requirements to finance commercial property, and enhances equity returns.

The Company is subject to certain covenants on its credit facilities. The covenants include a total and secured leverage ratio, an interest and fixed charge ratio, as well as a dividend payout ratio and a recourse debt requirement. The Company monitors the ratios on a quarterly basis. As at June 30, 2008, the Company was in compliance with all of its covenants.

Management believes the Company's liquidity needs will be satisfied using cash on hand, cash flows generated from operating activities and provided by financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, interest and other income, available cash balances, draws on credit facilities and refinancings, including upward refinancings, of maturing indebtedness are the Company's principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in its commercial property portfolio. Another source of cash flow includes third-party fees generated by the Company's asset management, leasing and development businesses. Consequently, 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 development costs, potential property acquisitions, scheduled debt maturities and non-recurring capital expenditures. Management plans to meet these needs with one or more of the following:

- construction loans;
- investment in new funds;
- income from operations;
- proceeds from sales of assets; and
- financings, including upward refinancings.

The Company attempts to match the maturity of its commercial and development property debt portfolio with the average lease terms of its properties. At June 30, 2008, the average term to maturity of the Company's commercial property debt was five years and the Company's average lease term of its properties was approximately six years. The Company will continue to make efforts to match the maturity of the commercial property debt portfolio with the average lease term of our properties.

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

	Payments Due By Period			
(Millions)	Total	1 - 3 Years	4 - 5 Years	After 5 Years
Commercial and development property debt	$ 1,109.8	$ 248.0	$ 499.0	$ 362.8

NOTE 20: OTHER INFORMATION

Supplemental cash flow information

	Three months ended Jun. 30		Six months ended Jun. 30	
(Millions)	2008	2007	2008	2007
Dispositions of real estate	$ 3.3	$ 11.2	$ 3.3	$ 139.2
Mortgage repaid upon disposition	—	(4.6)	—	(44.6)
Net dispositions	3.3	6.6	3.3	94.6
Cash interest paid	16.8	11.1	28.4	17.6

NOTE 21: SUBSEQUENT EVENTS

(a) Subsequent to the quarter ended June 30, 2008, the Company fully repaid the mortgage loan at 22 Front Street in Toronto, which matured July 15, 2008 in the amount of $6.3 million.

(b) Subsequent to the quarter ended June 30, 2008, the Company closed on the sale of the O&Y Consortium's 6% interest in 6700 Finch Avenue in Toronto. The Company's share of the cash proceeds was $0.8 million.

Shareholder Information

STOCK EXCHANGE LISTINGS

	Symbol	Stock Exchange
Common Shares	BPP	TSX
Preferred Shares		
Series G	BPP.PR.G	TSX
Series J	BPP.PR.J	TSX
Series K	Not listed	—
Series M	BPP.PR.M	TSX
Series N	Not Listed	—

DIVIDEND RECORD AND PAYMENT DATES[1]

	Record Date	Payment Date
Common Shares	First day of March, June, September and December	Last business day of March, June, September and December
Preferred Shares		
Series G	Last business day of January, April, July and October	Fourteenth day of February, May, August and November
Series J	Last business day of January, April, July and October	Fourteenth day of February, May, August and November
Series K	First business day preceding payment date	The day after the third Wednesday of every month
Series M	Last business day of January, April, July and October	Fourteenth day of February, May, August and November
Series N	Six business days preceding payment date	The day after the third Wednesday of every month

[1] All dividends are subject to declaration by the Company's Board of Directors.

COMMON SHARE DIVIDEND HISTORY

(Dollars)	2008	2007	2006	2005	2004
March 31	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15[2]
June 30	0.15[3]	0.15	0.15	0.15	0.15
September 30		0.15	0.15	0.15	0.15
December 31		0.15	0.15	0.15	0.15

[2] Excludes the special common share dividend of $15.00 per share.
[3] Excludes the special common share dividend of $7.25 per share.

Corporate Information

CORPORATE PROFILE

BPO Properties Ltd. is a Canadian company that invests in real estate, focusing on the ownership and value enhancement of premier office properties. The current property portfolio is comprised of interests in 27 commercial properties totaling 18.1 million square feet and five development projects totaling 5.7 million square feet. Landmark properties include First Canadian Place in Toronto and Bankers Hall in Calgary. BPO Properties' common shares trade on the TSX under the symbol BPP.

BPO PROPERTIES LTD.

Brookfield Place, Bay Wellington Tower
181 Bay Street, Suite 330
Toronto, Ontario M5J 2T3
Tel: (416) 369-2300
Fax: (416) 369-2301
www.bpoproperties.com

SHAREHOLDER INQUIRIES

The Company welcomes inquiries from shareholders, analysts, media representatives and other interested parties. Questions relating to investor relations or media inquiries can be directed to Melissa Coley, Vice President, Investor Relations at 416.359.8593 or via e-mail at mcoley@bpoproperties.com. Inquiries regarding financial results should be directed to Bryan Davis, Senior Vice President and Chief Financial Officer at 416.956.5170 or via e-mail at bdavis@bpoproperties.com.

Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent:

CIBC MELLON TRUST COMPANY

By mail:	P.O. Box 7010 Adelaide Street Postal Station Toronto, Ontario, M5C 2W9
By courier:	199 Bay Street Commerce Court West Securities Level Toronto, Ontario, M5L 1G9 Attention: Courier Window
Tel:	416.643.5500 / 800.387.0825
Fax:	416.643.5501
Web site:	www.cibcmellon.com
E-mail:	inquiries@cibcmellon.com

COMMUNICATIONS

We strive to keep our shareholders updated on our progress through a comprehensive annual report, quarterly interim reports, periodic press releases and quarterly conference calls.

BPO Properties maintains a Web site, www.bpoproperties.com, which provides access to our published reports, press releases, statutory filings, supplementary information and stock and dividend information as well as summary information on the Company.

BPO PROPERTIES

www.bpoproperties.com