



THIRD QUARTER REPORT SEPTEMBER 30, 2009

Dear Shareholders:

Net income for the three months ended September 30, 2009 was \$13.4 million (\$0.43 per share), compared to \$15.4 million (\$0.43 per share) during the same period in 2008. Net operating income from commercial properties for the three months ended September 30, 2009 increased by \$0.4 million to \$49.6 million, compared to \$49.2 million during the same period in 2008.

Funds from operations was \$26.4 million (\$0.89 per share) for the three months ended September 30, 2009, compared to \$38.6 million (\$1.24 per share) during the same period in 2008. The decrease is primarily a result of higher estimated current tax expense for the year and lower interest income.

BPO Properties' revenues from commercial operations for the three months ended September 30, 2009 was \$85.4 million, compared to \$84.6 million during the same period in 2008.

HIGHLIGHTS OF THE THIRD QUARTER

Opened Bay Adelaide Centre, Toronto, the first development built to achieve a Leadership in Energy and Environmental Design (LEED) Gold Standard and the first major development in Toronto's financial district in 17 years. Standing 51 stories tall, the 1.2-million-square-foot office tower adheres to strict building efficiency guidelines, including optimization of energy, light and water, and the use of local and recycled building materials. The tower is 73% pre-leased.

Commenced the recladding of First Canadian Place, Toronto. Along with ownership partners, the Company will thoroughly renovate Canada's tallest office tower including a total recladding of the building's exterior with laminated glass spandrel panels replacing the existing white marble. The project is seeking LEED – EB:OM (Leadership in Energy and Environmental Design for Existing Buildings: Operations and Maintenance) certification and is expected to be complete by the end of 2011.

Announced early adoption of IFRS. One year ahead of the mandatory conversion date for Canadian public companies, BPO Properties intends to adopt International Financial Reporting Standards commencing with its interim financial statements for the three months ended March 31, 2010; those financial statements will also include comparative results for the periods commencing January 1, 2009.

Renewed normal course issuer bid. BPO Properties may, during the twelve month period commencing September 22, 2009 and ending September 21, 2010, purchase on the Toronto Stock Exchange up to 332,410 common shares, representing approximately 5% of its issued and outstanding common shares.

STOCK SPLIT

On November 3, 2009, the Board of Directors approved a three-for-one stock split in the form of a stock dividend. Subject to regulatory approval, shareholders will receive two additional BPP common shares for each common share held. Fractional shares will be paid in cash at the prevailing market price. The stock dividend will be payable on December 31, 2009 to shareholders of record at the close of business on December 8, 2009.

BPO Properties is undertaking the stock split to ensure its shares remain accessible to individual shareholders, and to further enhance the liquidity of the Company's shares. The dividend will have no unfavorable tax consequences, and will not dilute shareholders' equity. The number of shares subject to the Company's current normal course issuer bid will be adjusted upwards to reflect the stock split.

OPERATIONS REVIEW

BPO Properties continued its pro-active leasing strategy in the third quarter of 2009, with the portfolio 98.2% leased at the end of the quarter, compared to the Canadian national average of 92.0%. During the quarter, BPO Properties leased 327,000 square feet of space.

Transactional highlights from the third quarter include:

- 191,000 square feet in Toronto
 - One-year lease renewal with the Department of Justice at Exchange Tower for 144,000 square feet
 - Three-year new lease with Lombard Canada Ltd. at 105 Adelaide Street West for 10,000 square feet
- 102,000 square feet in Edmonton at Canadian Western Bank Place
 - Five-year lease renewal with CGI Information Systems for 57,000 square feet
 - 10-year lease renewal and expansion with Witten Management Ltd. for 39,000 square feet
- 34,000 square feet in Other Markets

DIVIDEND DECLARATION

The Board of Directors of BPO Properties declared a normal quarterly common share dividend of \$0.30 per share (on a pre-split basis), payable on December 30, 2009 to shareholders of record at the close of business on December 1, 2009. This dividend payment will be made one day prior to effecting the stock split, which will be payable on December 31, 2009 to shareholders of record at the close of business on December 8, 2009. Subsequent dividend payments will be adjusted to reflect the impact of the stock split.

The Board of Directors also declared dividends on series G, J and M preferred shares, payable February 14, 2010 to shareholders of record at the close of business on January 29, 2010, for the period November 14, 2009 to February 13, 2010. The dividend per preferred share is to be computed in accordance with the terms of the shares.

OUTLOOK

We feel a sense of optimism that the economy may be in the early stages of a recovery. Our strong leasing activity and high occupancy across the portfolio keeps us well-positioned for continued success.



Thomas F. Farley
President and Chief Executive Officer
November 6, 2009

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 28 commercial properties totaling 18.3 million square feet, including 3.2 million square feet of parking. Our development portfolio consists of seven development properties totaling 5.4 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.	Leasable Area 000's Sq. Ft.	Parking 000's Sq. Ft.	Total 000's Sq. Ft.	Effective Ownership Interest %	BPO's Effective Interest 000's Sq. Ft.
TORONTO									
First Canadian Place	1	95.2%	2,379	232	2,611	170	2,781	25%	695
Exchange Tower	1	99.1%	963	66	1,029	131	1,160	50%	580
Hudson's Bay Centre	1	97.2%	536	261	797	295	1,092	100%	1,092
2 Queen St. E.	1	93.2%	448	16	464	81	545	25%	136
Queen's Quay Terminal	1	98.5%	428	76	504	—	504	100%	504
151 Yonge St.	1	97.8%	289	10	299	72	371	25%	93
105 Adelaide St. West	1	99.5%	177	7	184	48	232	100%	232
HSBC Building	1	97.1%	188	6	194	31	225	100%	225
20-22 Front St. West	1	100.0%	135	8	143	—	143	100%	143
	9	96.6%	5,543	682	6,225	828	7,053		3,700
OTTAWA									
Place de Ville I	2	98.7%	569	13	582	502	1,084	25%	271
Place de Ville II	2	100.0%	597	12	609	433	1,042	25%	261
Jean Edmonds Towers	2	100.0%	541	13	554	95	649	25%	162
	6	99.6%	1,707	38	1,745	1,030	2,775		694
CALGARY									
Bankers Hall	3	99.9%	1,944	224	2,168	409	2,577	50%	1,289
Bankers Court	1	100.0%	255	6	261	62	323	50%	162
Suncor Energy Centre	2	100.0%	1,710	22	1,732	220	1,952	50%	976
Fifth Avenue Place	2	99.5%	1,430	46	1,476	206	1,682	50%	841
Altius Centre	1	99.4%	304	3	307	71	378	25%	95
	9	99.8%	5,643	301	5,944	968	6,912		3,363
EDMONTON									
Canadian Western Bank Place	1	98.4%	371	36	407	91	498	25%	125
Enbridge Tower	1	100.0%	184	—	184	30	214	25%	54
	2	98.9%	555	36	591	121	712		179
VANCOUVER									
Royal Centre	1	94.1%	493	96	589	264	853	100%	853
OTHER									
Merivale Place, Nepean	1	100.0%	—	3	3	—	3	100%	3
TOTAL COMMERCIAL	28	98.2%	13,941	1,156	15,097	3,211	18,308	—	8,792
DEVELOPMENT									
TORONTO									
Bay Adelaide Centre	3	—	2,600	—	2,600	—	2,600	100%	2,600
Brookfield Place III	1	—	800	—	800	—	800	54%	432
	4	—	3,400	—	3,400	—	3,400		3,032
OTTAWA									
Place de Ville III	1	—	577	—	577	—	577	25%	144
	1	—	577	—	577	—	577		144
CALGARY									
Herald Block	1	—	1,200	—	1,200	—	1,200	100%	1,200
Bankers West Parkade	1	—	250	—	250	—	250	50%	125
	2	—	1,450	—	1,450	—	1,450		1,325
TOTAL DEVELOPMENT	7	—	5,427	—	5,427	—	5,427		4,501
TOTAL PORTFOLIO	35	98.2%	19,368	1,156	20,524	3,211	23,735	—	13,293

Management’s Discussion and Analysis of Financial Results

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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, including changes in accounting policies to be adopted under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board; 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 law.

PART I – OBJECTIVES AND FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2009 includes material information up to November 6, 2009. 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 third 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 29 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, one-time transaction costs, depreciation and amortization, future income taxes, and certain other non-cash items. 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 18. 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 September 30, 2009, the book value of BPO Properties' assets was \$2,369.5 million. During the third quarter of 2009, we generated \$13.4 million of net income (\$0.43 per common share) and \$26.4 million of funds from operations (\$0.89 per common share).

FINANCIAL HIGHLIGHTS

BPO Properties' financial results are as follows:

(Millions, except per-share amounts)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Results of operations				
Net income	\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6 ⁽¹⁾
Net income per share	0.43	0.43	1.42	1.38
Common share dividends paid per share ⁽²⁾	0.30	0.15	0.60	0.45
Funds from operations	26.4	38.6	88.9	114.6
Funds from operations per share	0.89	1.24	2.98	3.62

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Balance sheet data		
Total assets	\$ 2,369.5	\$ 2,351.8 ⁽¹⁾
Commercial properties	1,379.9	1,338.0 ⁽¹⁾
Commercial and development property debt	1,417.3	1,255.3
Shareholders' equity	742.8	860.4 ⁽¹⁾
Book value per common share	12.76	16.92

⁽¹⁾ Figures were restated for an adoption of a new accounting policy, refer to Part IV ("Critical Accounting Policies and Estimates") on page 25.

⁽²⁾ Excludes the special common share dividend of \$4.95 and \$7.25 per share in 2009 and 2008, respectively.

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 28 properties totaling 18.3 million square feet, including 3.2 million square feet of parking. Our development portfolio comprises five development sites totaling 5.4 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 when the economy rebounds and supply constraints create opportunities; and
- Expanding our asset management platform through the establishment of new joint venture opportunities or funds.

The following table summarizes our investment by market:

Region	Number of Properties	Total Area (000's Sq. Ft.)	BPO Properties' Owned Interest (000's Sq. Ft.)	Book Value (Millions)	Book Value Per Sq. Ft.	Debt (Millions)	Net Book Equity (Millions)
Toronto, Ontario	9	7,053	3,700	\$ 590.6	\$ 160	\$ 364.8	\$ 225.8
Ottawa, Ontario	6	2,775	694	98.3	142	23.9	74.4
Calgary, Alberta	9	6,912	3,363	563.7	168	521.4	42.3
Edmonton, Alberta	2	712	179	17.7	99	20.5	(2.8)
Vancouver, B.C.	1	853	853	106.8	125	118.2	(11.4)
Other	1	3	3	2.8	—	—	2.8
Continuing operations	28	18,308	8,792	1,379.9	157	1,048.8	331.1
Office developments	7	5,427	4,501	733.3	163	368.5	364.8
Total	35	23,735	13,293	\$ 2,113.2	\$ 159	\$ 1,417.3	\$ 695.9

We have historically explored property-level joint venture opportunities with strategic institutional partners. Although we plan to continue with this endeavor, we also pursue acquisitions 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 28 properties, seven are wholly owned, nine are held in property-level joint ventures or co-tenancies, and 12 were acquired through the O&Y portfolio acquisition. The Fund consists of a consortium of institutional investors that 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 the 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, ongoing services.
- Transaction Development, redevelopment, and leasing activities conducted on behalf of these funds.
- Performance Earned when certain predetermined benchmarks are exceeded. Performance fees, which can add considerably to fee revenue, typically arise later in a fund's 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 particularly in these markets 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, Suncor Energy, 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 22.

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 8.6% 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:

Year of Expiry	Total Portfolio			Toronto, Ontario			Ottawa, Ontario			Calgary, Alberta		
	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	270	1.8		209	3.4		8	0.4		12	0.2	
Remainder 2009	69	0.5	\$ 31	38	0.6	\$ 39	14	0.8	\$ 14	14	0.2	\$ 44
2010	701	4.6	24	446	7.2	27	9	0.5	31	181	3.0	25
2011	1,125	7.5	27	310	5.0	26	9	0.5	16	680	11.4	29
2012	1,096	7.3	27	553	8.9	26	13	0.7	17	461	7.8	30
2013	3,141	20.8	26	1,409	22.6	28	1,135	65.0	20	502	8.4	33
2014	430	2.8	32	232	3.7	29	9	0.5	26	154	2.6	38
2015	2,462	16.3	26	545	8.8	27	543	31.1	14	1,181	19.9	31
2016 & beyond	5,803	38.4	25	2,483	39.8	21	5	0.5	30	2,759	46.5	32
Parking	3,211	—	—	828	—	—	1,030	—	—	968	—	—
Total	18,308	100.0		7,053	100.0		2,775	100.0		6,912	100.0	
Average market net rent			\$ 27			\$ 25			\$ 22			\$ 35

Year of Expiry	Edmonton, Alberta			Vancouver, B.C.			Other		
	000s Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾	000s Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾	000s Sq. Ft.	%	Net Rent per Sq. Ft. ⁽¹⁾
Currently available	6	1.1		35	5.9		—	—	
Remainder 2009	-	0.0	\$ 8	3	0.5	\$ 20	—	—	\$ —
2010	48	8.1	14	17	2.9	22	—	—	—
2011	55	9.3	13	71	12.1	24	—	—	—
2012	7	1.2	21	62	10.5	22	—	—	—
2013	9	1.5	21	84	14.3	22	2	66.7	32
2014	28	4.7	16	7	1.2	28	—	—	—
2015	132	22.3	17	61	10.4	24	—	—	—
2016 & beyond	306	51.8	15	249	42.6	12	1	33.3	28
Parking	121	—	—	264	—	—	—	—	—
Total	712	100.0		853	100.0		3	100.0	
Average market net rent			\$ 25			\$ 26			\$ 27

⁽¹⁾ Net rent at expiration of lease

COMMERCIAL DEVELOPMENT

We hold interests in 5.4 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 (in excess of 50%) with one or more lead tenants have been achieved. We currently have one project under development which is outlined on page 10 of this MD&A.

The following table summarizes our commercial development projects at September 30, 2009:

Location	Number of Properties	Number of Sites	Ownership	Sq. Ft.
Toronto, Ontario				
Bay Adelaide Centre	3	1	100%	2,600,000
Brookfield Place III	1	1	54%	800,000
Ottawa, Ontario				
Place de Ville III	1	1	25%	577,000
Calgary, Alberta				
Herald Block	1	1	100%	1,200,000
Bankers West Parkade	1	1	50%	250,000
	7	5		5,427,000

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. Although net income is calculated in accordance with 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 18 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 was defined in the first quarter as net income prior to extraordinary items, one-time transaction costs, depreciation and amortization, future income taxes, and certain other non-cash items. Comparatives have not been restated. 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 equity capital at a reasonable cost;
- The availability of debt capital at a cost and on terms conducive to our goal; and
- The availability of new property acquisitions that fit into our strategic plan.

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was \$2,369.5 million at September 30, 2009 (compared to \$2,351.8 million on December 31, 2008). The following is a summary of our assets:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Commercial properties	\$ 1,379.9	\$ 1,338.0
Commercial developments	733.3	689.1
Loans receivable	—	150.6
Intangible assets	25.4	30.3
Tenant receivables and other assets	80.2	82.3
Cash and cash equivalents	150.7	61.5
Total	\$ 2,369.5	\$ 2,351.8

COMMERCIAL PROPERTIES

The book value of our commercial properties was \$1,379.9 million as at September 30, 2009 (compared to \$1,338.0 million on December 31, 2008). The increase in commercial properties is primarily attributable to the transition of Bankers Court from a commercial development to a commercial property, offset by depreciation and amortization during the nine months ended September 30, 2009. There were no commercial properties held for sale at September 30, 2009. The consolidated carrying value of our properties is approximately \$157 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	Total Area (000's Sq. Ft.)	BPO Properties' Owned Interest (000's Sq. Ft.)	Sept. 30, 2009 (Millions)	Dec. 31, 2008 (Millions)
Toronto, Ontario	7,053	3,700	\$ 590.6	\$ 597.4
Ottawa, Ontario	2,775	694	98.3	99.4
Calgary, Alberta	6,912	3,363	563.7	511.3
Edmonton, Alberta	712	179	17.7	17.4
Vancouver, B.C.	853	853	106.8	109.7
Other	3	3	2.8	2.8
Total	18,308	8,792	\$ 1,379.9	\$ 1,338.0

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 and recovered through rental payments. Expenditures for tenant installation costs for the three and nine months ended September 30, 2009 totaled \$3.1 million and \$7.9 million, respectively (compared to \$3.5 million and \$6.7 million during the same periods in 2008). The increase was a result of tenant installation costs incurred on the lease-up of space, primarily at Hudson's Bay Centre, Queen's Quay Terminal and Suncor Energy Centre.

Tenant installation costs are summarized as follows:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Leasing commissions	\$ 0.3	\$ 2.0	\$ 1.9	\$ 2.9
Tenant improvements	2.8	1.5	6.0	3.8
Total	\$ 3.1	\$ 3.5	\$ 7.9	\$ 6.7

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 nine months ended September 30, 2009, totaled \$3.3 million and \$7.7 million, respectively (compared to \$4.5 million and \$13.0 million during the same periods in 2008). These expenditures exclude repairs and maintenance costs, which are expenses as incurred and 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 details of our capital expenditures are summarized as follows:

(Millions)	Three months ended Sept.30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Revenue-enhancing	\$ 2.4	\$ 2.8	\$ 5.5	\$ 9.6
Non-revenue-enhancing	0.9	1.7	2.2	3.4
Total	\$ 3.3	\$ 4.5	\$ 7.7	\$ 13.0

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	Sept. 30, 2009	Dec. 31, 2008
Current developments				
Bay Adelaide Centre, Toronto	2,600,000	1,160,000	\$ 671.1	\$ 578.9
Bankers Court, Calgary ⁽¹⁾			—	49.1
Planning				
Herald Block, Calgary	1,200,000	—	58.7	57.5
Others:				
Bankers West Parkade, Calgary	250,000	—		
Brookfield Place III, Toronto	800,000	—		
Place de Ville III, Ottawa	577,000	—		
	<u>1,627,000</u>		3.5	3.6
Total	5,427,000	1,160,000	\$ 733.3	\$ 689.1

⁽¹⁾Bankers Court was transferred from development to commercial properties as of August 1, 2009

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total book value of this development land and infrastructure was \$733.3 million at September 30, 2009, an increase of \$44.2 million from \$689.1 million at December 31, 2008. The increase is a result of the ongoing active construction at one of our development sites, offset by the transition of Bankers Court to commercial properties during the third quarter. The following is a brief description of our construction activities:

- Bay Adelaide Centre in Toronto represents our largest development project. Construction of Phase I of this project commenced July 2006. The new 51-storey office tower, representing 1.2 million square feet, was certified substantially complete at the end of the second quarter of 2009. Construction activities on Phase I have increased the book value of this site by \$92.2 million since December 31, 2008. The building is currently 73% pre-leased.
- Bankers Court development was transitioned into commercial properties as of August 1, 2009 at a book value of \$59.6 million. All tenants have moved in during the third quarter. The building is 100% leased.

BPO Properties' development permit application for the construction of a 1.2 million square foot office tower on the Herald site continues to progress through the City of Calgary's approval process.

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 (in excess of 50%) have been achieved.

The details of development expenditures are as follows:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Construction costs	\$ 4.4	\$ 55.0	\$ 53.0	\$ 156.9
Interest capitalized	7.5	7.5	22.8	21.7
Property taxes and other	11.8	3.6	16.1	10.1
Tenant improvements	2.2	—	12.2	—
Total	\$ 25.9	\$ 66.1	\$ 104.1	\$ 188.7

LOANS RECEIVABLE

Loans receivable had a \$nil balance as at September 30, 2009 (compared to \$150.6 million on December 31, 2008). This is due to the repayment of a \$125.0 million on-demand deposit with our parent company Brookfield Properties Corporation ("BPC") during the first quarter of 2009 and a loan receivable repayment (at par value plus accrued interest) of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), during the second quarter of 2009.

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 in-place operating leases, origination costs, and other identified intangible assets and assumed liabilities. Net intangible assets decreased to \$25.4 million at September 30, 2009, from \$30.3 million at December 31, 2008 primarily due to amortization during the nine months ended September 30, 2009.

The components of intangible assets are as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Intangible assets		
Lease-origination costs	\$ 40.4	\$ 40.4
Tenant relationships	6.5	6.5
Above-market in-place operating leases	2.0	2.0
	48.9	48.9
Less accumulated amortization		
Lease-origination costs	(20.3)	(16.2)
Tenant relationships	(2.2)	(1.6)
Above-market in-place operating leases	(1.0)	(0.8)
Total	\$ 25.4	30.3

TENANT RECEIVABLES AND OTHER ASSETS

Tenant receivables and other assets decreased to \$80.2 million at September 30, 2009 from \$82.3 million at December 31, 2008. This is primarily due to an increase in restricted cash, which includes cash as collateral against letters of credit issued for performance under certain contracts, offset by a decrease in tenant receivables.

The components of tenant receivables and other assets:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Tenant and other receivables	\$ 31.1	\$ 44.4
Straight-line rent receivable	18.9	18.3
Prepaid expenses and other assets	20.2	18.5
Restricted cash	10.0	1.1
Total	\$ 80.2	\$ 82.3

CASH AND CASH EQUIVALENTS

We endeavor to maintain high levels of liquidity to ensure that we can react quickly to changes in market conditions and to potential investment opportunities.

As at September 30, 2009, cash balances increased to \$150.7 million from \$61.5 million at December 31, 2008. The increase as detailed in our cash flow statement is primarily due to the repayment of a \$125.0 million on-demand deposit with our parent company BPC during the first quarter of 2009, a loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million) and up-financing of Suncor Energy Centre of \$70.0 million during the second quarter of 2009; offset by the special dividend payment of \$140.2 million also during the second quarter of 2009. At September 30, 2009, the Company had \$3.2 million of cash placed in term deposits.

LIABILITIES AND SHAREHOLDERS' EQUITY

Our asset base of \$2,369.5 million is financed with a combination of debt, preferred, and common equity. The components of our liabilities and shareholders' equity are as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Liabilities		
Commercial and development property debt	\$ 1,417.3	\$ 1,255.3
Intangible liabilities	64.5	71.9
Accounts payable and other liabilities	112.9	135.6
Future income tax liabilities	32.0	28.6
Shareholders' equity		
Preferred shares	381.7	381.7
Common shares	78.3	78.4
Retained earnings and AOCI	282.8	400.3
Total	\$ 2,369.5	\$ 2,351.8

COMMERCIAL AND DEVELOPMENT PROPERTY DEBT

Commercial and development property debt totaled \$1,417.3 million at September 30, 2009 (compared to \$1,255.3 million on December 31, 2008). The increase is primarily attributed to the up-financing of Suncor Energy Centre of \$70.0 million and additional advances on the development loans of Bay Adelaide Centre in Toronto and Bankers Court in Calgary.

Commercial and development property debt at September 30, 2009, had a weighted-average interest rate of 5.1% and an average term to maturity of four years. Debt on our commercial properties, with the exception of Hudson's Bay Centre, Suncor Energy Centre and Bay Adelaide Centre, are non-recourse, thereby reducing overall financial risk to the Company.

We 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 totaling \$62.9 million maturing in the fourth quarter of 2009, representing 5% of the Company's total debt outstanding at September 30, 2009. Management expects these debts will be refinanced in the normal course.

The tightening of the credit markets has posed a significant challenge to property owners and managers. However, in spite of these conditions, we have had success in refinancing over \$220 million of commercial property debt during the first three quarters of 2009. We believe completing these financings in this tough credit environment is a validation of our strategy of owning high-quality assets in Canada's top markets.

The details of commercial and development property debt at September 30, 2009, are as follows:

Commercial Property	Location	Interest Rate %	Maturity Date	BPO Properties'	
				Consolidated Share (Millions)	Mortgage Details
Place de Ville I	Ottawa	7.8	November 2009	5.5	Nonrecourse - fixed rate
First Canadian Place	Toronto	8.1	December 2009	58.4	Nonrecourse - fixed rate
Bay Adelaide Centre ⁽¹⁾⁽⁴⁾	Toronto	1.8	July 2010	369.5	Limited recourse-variable rate
Bankers Court	Calgary	1.9	October 2010	44.2	Nonrecourse - variable rate
Queen's Quay Terminal	Toronto	7.3	March 2011	33.2	Nonrecourse - fixed rate
Fifth Avenue Place	Calgary	7.6	August 2011	70.0	Nonrecourse - fixed rate
Exchange Tower	Toronto	6.8	April 2012	60.4	Nonrecourse - fixed rate
Royal Centre	Vancouver	5.0	May 2012	118.8	Nonrecourse - fixed rate
151 Yonge Street	Toronto	6.0	June 2012	10.9	Nonrecourse - fixed rate
HSBC Building	Toronto	8.2	October 2012	22.3	Nonrecourse - fixed rate
105 Adelaide	Toronto	5.3	February 2013	22.4	Nonrecourse - fixed rate
Hudson's Bay Centre ⁽²⁾⁽⁵⁾	Toronto	5.2	May 2013	110.0	Limited recourse - fixed rate
Bankers Hall	Calgary	6.7	November 2013	11.1	Nonrecourse - fixed rate
Bankers Hall	Calgary	7.2	November 2013	158.3	Nonrecourse - fixed rate
Jean Edmonds Tower	Ottawa	5.6	January 2014	1.2	Nonrecourse - fixed rate
Suncor Energy Centre ⁽³⁾	Calgary	6.4	June 2014	220.0	Limited recourse - fixed rate
Canadian Western Bank Place	Edmonton	5.6	December 2017	14.5	Nonrecourse - fixed rate
Altius Centre	Calgary	5.6	December 2017	20.5	Nonrecourse - fixed rate
2 Queen Street	Toronto	5.6	December 2017	28.6	Nonrecourse - fixed rate
Enbridge Tower	Edmonton	6.5	July 2019	6.2	Nonrecourse - fixed rate
20-22 Front St.	Toronto	6.2	October 2020	19.7	Nonrecourse - fixed rate
Jean Edmonds Tower	Ottawa	6.8	January 2024	15.6	Nonrecourse - fixed rate
Premium on assumed mortgages	Various	—	—	2.3	
Continuing operations		5.1		1,423.6	
Deferred financing costs				(6.3)	
Total				\$ 1,417.3	

⁽¹⁾ This loan has limited recourse to the Company for up to \$60.0 million

⁽²⁾ This loan has limited recourse to the Company for up to \$15.0 million

⁽³⁾ Includes \$35.0 million unsecured loan from an affiliate of the property's joint-venture partner

⁽⁴⁾ Two one-year extension options available at maturity. The criteria to extend the first option to 2011 has been met as of September 30, 2009

⁽⁵⁾ Two-year extension option which extends the maturity to May 2015 is available to the Company provided that certain debt service and loan-to-value thresholds are met

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

(Millions, except interest rate data)	Scheduled			Weighted -
	Amortization	Maturities	Total	Average Interest Rate (%) at Sept. 30, 2009
Remainder of 2009	\$ 6.3	\$ 62.9	\$ 69.2	8.0%
2010	25.7	404.8	430.5	1.8%
2011	18.3	97.3	115.6	7.5%
2012	14.4	195.6	210.0	5.9%
2013	10.2	276.8	287.0	6.3%
2014 and thereafter	8.0	297.0	305.0	6.2%
Total	\$ 82.9	\$ 1,334.4	\$ 1,417.3	5.1%

CONTRACTUAL OBLIGATIONS

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

(Millions)	Payments Due By Period			
	Total	1 - 3 Years	4 - 5 Years	After 5 Years
Commercial and development property debt	\$ 1,417.3	\$ 615.3	\$ 497.0	\$ 305.0
Interest expense ⁽¹⁾ - Commercial and development property debt	244.4	127.9	75.7	40.8
Ground leases ⁽²⁾	388.9	11.1	9.8	368.0
	\$ 2,050.6	\$ 754.3	\$ 582.5	\$ 713.8

⁽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 an undiscounted basis, on land leases or other agreements largely expiring on or before the year 2115

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 15 of the third quarter 2009 consolidated interim financial statements.

INTANGIBLE LIABILITIES

Intangible liabilities are below-market in-place operating leases and above-market ground leases assumed on acquisitions, net of related accumulated amortization. Net intangible liabilities decreased to \$64.5 million at September 30, 2009 from \$71.9 million at December 31, 2008 primarily due to amortization during the nine months ended September 30, 2009. Approximately \$0.1 million of fully amortized intangible liabilities and their corresponding accumulated amortization were written off during the nine months ended September 30, 2009. No amounts were written off during the three months ended September 30, 2009.

The composition of intangible liabilities is as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Intangible liabilities		
Below-market in-place operating leases	\$ 56.7	\$ 56.8
Above-market ground lease obligations	45.8	45.8
	102.5	102.6
Less accumulated amortization		
Below-market in-place operating leases	(28.0)	(22.6)
Above-market ground lease obligations	(10.0)	(8.1)
Total	\$ 64.5	\$ 71.9

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities totaled \$112.9 million at September 30, 2009 (compared to \$135.6 million on December 31, 2008). The decrease is primarily due to the release of construction holdbacks related to Bay Adelaide Centre.

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

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Accounts payable and accrued liabilities	\$ 103.4	\$ 131.3
Accrued Interest	9.5	4.3
Total	\$ 112.9	\$ 135.6

INCOME TAXES

At September 30, 2009, we had net future income tax liabilities of \$32.0 million (compared to \$28.6 million on December 31, 2008). The increase of \$3.4 million is primarily 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)	Sept. 30, 2009	Dec. 31, 2008
Future income tax assets related to operating and capital losses	\$ (10.6)	\$ (13.7)
Future income tax liabilities related to differences between tax and book basis	42.6	42.3
Total	\$ 32.0	\$ 28.6

At September 30, 2009, we had net operating loss carryforwards of approximately \$24.7 million (compared to \$34.7 million on December 31, 2008) 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.

Income tax expense is calculated as follows:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2008 – 32.0%)	\$ 6.5	\$ 8.0	\$ 21.7	\$ 24.2
Increase in income tax expense due to the following:				
Other	0.5	1.9	1.5	1.0
Total	\$ 7.0	\$ 9.9	\$ 23.2	\$ 25.2

The major components of income tax expense include the following:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Current tax expense	\$ 7.0	\$ 7.2	\$ 18.1	\$ 17.7
Future tax expense	—	2.7	5.1	7.5
Total	\$ 7.0	\$ 9.9	\$ 23.2	\$ 25.2

PREFERRED SHARES

At September 30, 2009 we had \$381.7 million of preferred equity outstanding consistent with the balance at December 31, 2008. 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	Sept. 30, 2009	Dec. 31, 2008
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 nine months ended September 30, 2009, we paid preferred dividends of \$1.1 million and \$4.5 million, respectively (compared to \$3.3 million and \$11.3 million during the same periods in 2008), due to a decrease in interest rates on which the dividend rates are based.

COMMON EQUITY

Total common shares issued and outstanding at September 30, 2009, totaled 28.3 million shares. This included 21.7 million non-voting equity shares, which is consistent with the balance at December 31, 2008. During the quarter ended September 30, 2009, we repurchased 12,000 common shares for \$0.5 million at an average price of \$44.38 per share. In September 2009, we renewed our normal course issuer bid on the Toronto Stock Exchange. We may, during the twelve month period commencing September 22, 2009 and ending September 21, 2010, purchase on the Toronto Stock Exchange up to 332,410 common shares, representing approximately 5% of our issued and outstanding common shares. A copy of the notice of intention relating to our normal course issuer bid is available at www.sedar.com or may be requested from the Company at no additional cost. The book value of the common shares was \$33,000; as a result the amount paid in excess was recorded as a reduction to retained earnings.

Common share dividends totaling \$8.5 million and \$17.0 million were paid during the three and nine months ended September 30, 2009, respectively (compared to \$4.3 million and \$12.9 million during the same periods in 2008). During the second quarter of 2009 and 2008, we also paid special common share dividends of \$140.2 million and \$206.5 million or \$4.95 and \$7.25 per common share, respectively.

During the quarter ended September 30, 2009, the Company declared a 100% increase in the on-going quarterly common share dividend from \$0.15 to \$0.30 per share. The first increase was paid on September 30, 2009 to the shareholders of record at the close of business on September 1, 2009.

The book value per common share at September 30, 2009 was \$12.76 (compared to \$16.92 on December 31, 2008).

At September 30, 2009, the book value of our common equity was \$361.1 million (compared to \$478.7 million on December 31, 2008), compared with a market equity capitalization of approximately \$1,416.4 million (compared to \$679.2 million on December 31, 2008), calculated as total common shares outstanding multiplied by \$50.05 per share, the closing price per common share on the Toronto Stock Exchange on September 30, 2009 (compared to \$24.00 per share on December 31, 2008).

Like most commercial real estate companies within our peer group, our share price has traded down materially since the latter part of 2008. Compounding the decline in 2008 and the beginning of 2009 across most major indices, commercial real estate was hit particularly hard as a result of perceived pressures on balance sheet liquidity from financing risk. In addition, companies with tenant exposure concentrated in financial service focused markets, like Toronto, experienced additional share price pressure. We have also seen continued downward pressure on the market values of commercial real estate, however in the third quarter, we've seen a trend in a positive direction with market prices of shares in commercial real estate companies generally back on the rise and we feel a sense of optimism that the economy may be in the early stages of a recovery. At September 30, 2009, our market value per common share of \$50.05 was in excess of our book value per common share of \$12.76.

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 those capital expenditures deemed mandatory, including tenant improvements;
- fund current development costs not covered under construction loans; and
- fund investing activities which could include:
 - capital expenditures;
 - repurchase of our stock; and
 - property acquisitions.

We believe that our liquidity needs will be satisfied using cash on hand, cash flows generated from operating and financing activities, as well as proceeds from new joint venture opportunities or funds. Rental revenue, recoveries from tenants, interest and other income, available cash balances, draws on our 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 by 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 allows 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:

- cash flow from operations;
- construction loans;
- creation of new funds;
- proceeds from sales of partial interests in our wholly-owned assets; and
- financings, including upward refinancings.

Our commercial property debt is primarily fixed-rate and non-recourse to the Company. These investment-grade financings are typically structured on a loan-to-appraised-value basis of between 55% and 65% as market conditions permit. 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.

Most of our borrowings are in the form of long-term property-specific financings with recourse only to the specific assets. Limiting recourse to specific assets ensures that poor performance within one area does not compromise our ability to finance the balance of our operations. Our maturity schedule is fairly diversified so that financing requirements in any given year are manageable.

Our focus on structuring financings with investment grade characteristics ensures that debt levels on any particular asset can typically be maintained throughout a business cycle, and so enables us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed.

To help ensure we are able to react to investment opportunities quickly and on a value basis, we attempt to maintain a high level of liquidity. Our primary sources of liquidity consist of cash and cash equivalents. In addition, we structure our affairs to facilitate monetization of longer-duration assets through financings, co-investor participations or refinancings.

At September 30, 2009, we had approximately \$150.7 million of liquidity in the form of cash largely due to the repayment of a \$125.0 million on-demand deposit from BPC during the first quarter of 2009, a loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), and up-financing of Suncor Energy Centre of \$70.0 million during the second quarter of 2009; offset by the special dividend payment of \$140.2 million, also during the second quarter of 2009.

Cost of capital

We continually strive to reduce our 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 of September 30, 2009, our weighted-average cost of capital, assuming a 12.0% return on equity, was 7.0%, as compared to 6.2% on December 31, 2008. Our cost of capital is lower than many of our peers because of the greater amount of investment-grade financing that can be placed on our assets, which is a function of the high-quality nature of both the assets and the tenant base that compose our portfolio.

The following schedule details the capitalization of the Company as at September 30, 2009 and the related costs thereof:

(Millions, except cost of capital data)	Cost of Capital ⁽¹⁾		Underlying Value ⁽²⁾	
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2009	Dec. 31, 2008
Liabilities				
Commercial and development property debt	5.1%	5.6%	\$ 1,417.3	\$ 1,255.3
Shareholders' equity				
Preferred shares	1.2%	3.8%	381.7	381.7
Common shares ⁽³⁾	12.0%	12.0%	1,416.4	679.2
Total⁽⁴⁾	7.0%	6.2%	\$ 3,215.4	\$ 2,316.2

⁽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 at September 30, 2009. Underlying value of preferred equity is based on the book value of preferred shares

⁽³⁾ Determined on a market-value basis and assumes a 12% return on equity

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

OPERATING RESULTS

Net Income

Our net income for the three and nine months ended September 30, 2009 was \$13.4 million (\$0.43 per share) and \$44.7 million (\$1.42 per share), respectively, compared to \$15.4 million (\$0.43 per common share) and \$50.6 million (\$1.38 per common share) during the same periods in 2008.

The net decrease from the three months ended September 30, 2008 to the three months September 30, 2009 is largely a result of the following:

- a \$2.6 million decrease in loans and investment income, net of taxes (\$0.09 per share), primarily due to lower interest income from the repayment of a \$125.0 million on-demand deposit with our parent company BPC during the first quarter of 2009 and the loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), during the second quarter of 2009;
- a \$0.7 million increase in interest expense, net of taxes (\$0.03 per share), primarily due to up-financing at Suncor Energy Centre of \$220.0 million; and
- a \$0.5 million increase in general and administrative expense, net of taxes (\$0.02 per share), due to higher professional fees relating to non-recurring consulting and legal services.

The net decrease from the nine months ended September 30, 2008 to the nine months ended September 30, 2009 is largely a result of the following:

- a \$6.3 million decrease in loans and investment income, net of taxes (\$0.22 per share), primarily due to lower interest income from the repayment of the \$125.0 million on-demand deposit with our parent company BPC during the first quarter of 2009 and the loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), during the second quarter of 2009;
- a \$1.1 million increase in interest expense, net of taxes (\$0.04 per share) primarily due to up-financing at Suncor Energy Centre of \$220.0 million as well as a write-off of deferred financing fee;
- a \$0.5 million increase in general and administrative expense, net of taxes (\$0.02 per share), due to higher professional fees relating to non-recurring consulting and legal services; offset by
- a \$2.7 million increase in commercial property net operating income, net of taxes (\$0.10 per share), primarily due to continued growth in same property revenues and a reduction in operating expenses.

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 Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Commercial properties				
Revenue	\$ 85.4	\$ 84.6	\$ 257.5	\$ 254.7
Expenses	(35.8)	(35.4)	(107.8)	(109.0)
	49.6	49.2	149.7	145.7
Loans and investment income	0.2	4.0	3.1	12.4
	49.8	53.2	152.8	158.1
Expenses				
Interest expense	10.6	9.5	29.7	28.1
General and administrative expenses	5.8	5.1	16.1	15.4
	33.4	38.6	107.0	114.6
Depreciation and amortization	13.0	13.3	39.1	38.8
Income taxes	7.0	9.9	23.2	25.2
Net income	\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6
Net income per common share	\$ 0.43	\$ 0.43	\$ 1.42	\$ 1.38
Funds from operations per common share	\$ 0.89	\$ 1.24	\$ 2.98	\$ 3.62

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 our 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 Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Net income	\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6
Preferred share dividends	(1.1)	(3.3)	(4.5)	(11.3)
Net income available to common shareholders	12.3	12.1	40.2	39.3
Weighted average shares outstanding	28.3	28.4	28.3	28.5
Net income per common share	\$ 0.43	\$ 0.43	\$ 1.42	\$ 1.38

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Net income	\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6
Depreciation and amortization	13.0	13.3	39.1	38.8
Future income taxes ⁽¹⁾	—	9.9	5.1	25.2
Funds from operations	\$ 26.4	\$ 38.6	\$ 88.9	\$ 114.6

⁽¹⁾ Funds from operations was redefined in the first quarter of 2009 as net income prior to extraordinary items, one-time transaction costs, depreciation and amortization, future income taxes, and certain non-cash items. Comparatives have not been restated.

After providing for preferred share dividends, our funds from operations is calculated as follows:

(Millions, except per share amounts)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Funds from operations	\$ 26.4	\$ 38.6	\$ 88.9	\$ 114.6
Preferred share dividends	(1.1)	(3.3)	(4.5)	(11.3)
Funds from operations available to common shareholders	25.3	35.3	84.4	103.3
Weighted-average shares outstanding	28.3	28.4	28.3	28.5
Funds from operations per share	\$ 0.89	\$ 1.24	\$ 2.98	\$ 3.62

Funds from operations decreased to \$0.89 and \$2.98 per share during the three and nine months ended September 30, 2009, respectively (compared to \$1.24 and \$3.62 per share during the same periods in 2008). The decrease is primarily due to a decrease in loan interest income and inclusion of estimated current income tax expense in funds from operations this year, offset by an increase in commercial net operating income and lower preferred share dividends declared due to lower interest rates on which the dividends are based.

REVENUE

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, property taxes, and fee income. Revenue from commercial properties totaled \$85.4 million and \$257.5 million for the three and nine months ended September 30, 2009, respectively (compared to \$84.6 million and \$254.7 million during the same periods in 2008).

The components of total revenue are as follows:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Revenue from operations	\$ 82.0	\$ 81.4	\$ 247.5	\$ 245.3
Fee income	3.4	3.2	10.0	9.4
Total commercial property revenue	85.4	84.6	257.5	254.7
Loans and investment income	0.2	4.0	3.1	12.4
Total	\$ 85.6	\$ 88.6	\$ 260.6	\$ 267.1

COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled \$49.6 million and \$149.7 million during the three and nine months ended September 30, 2009, respectively (compared to \$49.2 million and \$145.7 million during the same periods in 2008).

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

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Revenue from continuing operations and fee income	\$ 85.4	\$ 84.6	\$ 257.5	\$ 254.7
Operating expenses	(35.8)	(35.4)	(107.8)	(109.0)
Total	\$ 49.6	\$ 49.2	\$ 149.7	\$ 145.7

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Net operating income – same property	\$ 45.2	\$ 45.3	\$ 137.6	\$ 134.4
Net operating income – development transferred to commercial property	0.8	—	0.8	—
Recurring fee income	3.4	3.2	10.0	9.4
Nonrecurring fees and other income	0.2	0.7	1.3	1.9
Total	\$ 49.6	\$ 49.2	\$ 149.7	\$ 145.7

Our strategy of owning, proactively managing and developing premier properties in high-growth, and in many instances supply-constrained, markets with high barriers to entry, along with our focus on executing long-term leases with strong credit rated tenants, has created one of Canada's most distinguished portfolios of office properties. In the past, this strategy has reduced our exposure to the cyclical nature of the real estate business, however, considering the severity of the global economic slowdown, we are at risk that major tenants are succumbing to financial pressures and are no longer having a need for all of their space, leading to increased supply through sublets or tenant defaults. To date, we have not been materially impacted by those financial institutions and professional service firms that have filed for bankruptcy or dissolved in recent months, though we are aware that this could be the beginning of a trend, and we are concerned about the financial stress that is facing many of our tenants across our portfolio. Despite this, we were successful in the third quarter of 2009 in reducing our lease expiry profile in the upcoming year. We feel confident with our current rollover risk exposure and are focused on working towards renewals on expiries in the upcoming months, as well as continuing to manage our rollover exposure in the future years; specifically in our energy sector markets which was a goal for us due to the volatility in the price of oil and gas.

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 nine months ended September 30, 2009, we recognized \$0.2 million and \$0.6 million of straight-line rental revenue, respectively (compared to \$0.5 million and \$1.7 million during the same periods in 2008).

Commercial property operating costs which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses, were \$35.8 million and \$107.8 million, respectively, for the three and nine months ended September 30, 2009 (compared to \$35.4 million and \$109.0 million during the same periods in 2008). The slight decrease year-to-date was the result of a decrease in utilities and general property maintenance costs.

Substantially all of our leases are net leases in which the lessee is required to pay its 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. Our total portfolio rate remained relatively consistent at 98.2% for the quarter ended September 30, 2009, compared to 98.6% in the same period in 2008. At September 30, 2009, average in-place net rent throughout the portfolio was \$23 per square foot, compared with \$22 per square foot at September 30, 2008.

The following table shows the average in-place rents and estimated current market rents for similar space in each of our markets as of September 30, 2009:

	Total 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	7,053	6	\$ 24	\$ 25
Ottawa, Ontario	2,775	4	18	22
Calgary, Alberta	6,912	9	26	35
Edmonton, Alberta	712	7	14	25
Vancouver, B.C.	853	10	17	26
Other	3	7	29	27
Total⁽¹⁾	18,308	7	\$ 23	\$ 27

⁽¹⁾ Excludes developments

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

(000's Sq. Ft., except % leased data)	Sept. 30, 2009		Sept. 30, 2008	
	Total Sq. Ft.	% Leased	Total Sq. Ft.	% Leased
Toronto, Ontario	7,053	96.6	7,054	97.4
Ottawa, Ontario	2,775	99.6	2,780	98.7
Calgary, Alberta	6,912	99.8	6,704	99.9
Edmonton, Alberta	712	98.9	711	99.8
Vancouver, B.C.	853	94.1	853	97.0
Other	3	100.0	3	100.0
Total⁽¹⁾	18,308	98.2	18,105	98.6

⁽¹⁾ Excludes developments

During the third quarter of 2009, we leased 327,000 square feet of space, relating to new leasing and renewals, compared to expiries of 55,000 square feet and accelerated expiries of 262,000 square feet. For the nine months ended September 30, 2009, the average leasing net rent is \$24, which is an increase of 20% over the average expiring net rent of \$20.

The details of our leasing activity for the third quarter of 2009 are as follows:

(000's Sq. Ft.)	Dec. 31, 2008		Activities During the Nine months Ended Sept. 30, 2009							Sept. 30, 2009	
	GLA ⁽¹⁾	Leased	Expiries	Average Expiring Net Rent	Leasing	Year One ⁽²⁾ Leasing Net Rent	Average ⁽³⁾ Leasing Net Rent	Acq. (Disp.)	GLA ⁽¹⁾	Leased	
Toronto, Ontario	7,054	6,897	(624)	\$ 18	571	\$ 19	\$ 19	(1)	7,053	6,844	
Ottawa, Ontario	2,780	2,772	(21)	18	21	23	23	(5)	2,775	2,767	
Calgary, Alberta	6,704	6,697	(217)	26	212	35	35	208	6,912	6,900	
Edmonton, Alberta	711	710	(108)	13	103	24	24	1	712	706	
Vancouver, B.C.	853	835	(49)	20	32	28	28	—	853	818	
Other	3	3	—	—	—	—	—	—	3	3	
Total⁽¹⁾	18,105	17,914	(1,019)	\$ 20	939	\$ 23	\$ 24	(203)	18,308	18,038	
Development Pre-leasing					64						
Total Leasing					1,003						

⁽¹⁾ Excludes developments

⁽²⁾ Represents net rent in the first year

⁽³⁾ Represents average net rent over lease term

INTEREST AND OTHER INCOME

Loans and investment income totaled \$0.2 million and \$3.1 million during the three and nine months ended September 30, 2009, respectively (compared to \$4.0 million and \$12.4 million during the same periods in 2008). The decrease primarily relates to a decrease in interest income due to the repayment of a \$125.0 million on-demand deposit with our parent company BPC, during the first quarter of 2009, and the loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), during the second quarter of 2009.

INTEREST EXPENSE

Interest expense totaled \$10.6 million and \$29.7 million during the three and nine months ended September 30, 2009, respectively (compared to \$9.5 million and \$28.1 million during the same periods in 2008). The increase is due to the completion of eight financing deals throughout 2008 and two financing deals during the second quarter of 2009, offset by an increase in capitalized interest.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$5.8 million and \$16.1 million for the three and nine months ended September 30, 2009, respectively (compared to \$5.1 million and \$15.4 million during the same periods in 2008). The increase is due to higher professional fees related to non-recurring consulting and legal services.

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 nine months ended September 30, 2009 were \$13.0 million and \$39.1 million, respectively (compared to \$13.3 million and \$38.8 million during the same periods in 2008).

QUARTERLY RESULTS

The results by quarter are as follows:

(Millions, except per-share amounts)	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total Revenue	\$ 85.6	\$ 86.3	\$ 88.7	\$ 98.5	\$ 88.6	\$ 91.2	\$ 87.3	\$ 90.6
Net operating income								
Operating income from commercial properties	49.6	50.1	50.0	49.5	49.2	48.8	47.7	47.6
Loans and investment income	0.2	1.0	1.9	8.1	4.0	4.8	3.6	5.1
	49.8	51.1	51.9	57.6	53.2	53.6	51.3	52.7
Expenses								
Interest expense	10.6	10.0	9.1	11.4	9.5	9.8	8.8	6.1
General and administrative expenses	5.8	5.0	5.3	7.1	5.1	5.2	5.1	4.8
	33.4	36.1	37.5	39.1	38.6	38.6	37.4	41.8
Depreciation and amortization	13.0	12.8	13.3	14.8	13.3	13.0	12.5	15.6
Income taxes	7.0	8.0	8.2	9.6	9.9	7.8	7.5	5.7
Net income from continuing operations	13.4	15.3	16.0	14.7	15.4	17.8	17.4	20.5
Discontinued operations	—	—	—	—	—	—	—	22.5
Net Income	\$ 13.4	\$ 15.3	\$ 16.0	\$ 14.7	\$ 15.4	\$ 17.8	\$ 17.4	\$ 43.0
Net income per common share								
Continuing operations	\$ 0.43	\$ 0.50	\$ 0.49	\$ 0.41	\$ 0.43	\$ 0.49	\$ 0.46	\$ 0.55
Discontinued operations	—	—	—	—	—	—	—	0.79
	\$ 0.43	\$ 0.50	\$ 0.49	\$ 0.41	\$ 0.43	\$ 0.49	\$ 0.46	\$ 1.34
Funds from operations per common share								
Continuing operations	\$ 0.89	\$ 1.05	\$ 1.04	\$ 1.28	\$ 1.24	\$ 1.22	\$ 1.16	\$ 1.30
Discontinued operations	—	—	—	—	—	—	—	0.05
Property-disposition gains	—	—	—	—	—	—	—	0.92
	\$ 0.89	\$ 1.05	\$ 1.04	\$ 1.28	\$ 1.24	\$ 1.22	\$ 1.16	\$ 2.27

Operating income from commercial properties for the current quarter has remained relatively consistent compared to the previous quarters in the current and prior years.

Loans and investment income decreased further during the third quarter of 2009, as compared to the previous quarters in 2009 and 2008 primarily due to a decrease in interest income as a result of the repayment of a \$125.0 million on-demand deposit with our parent company BPC during the first quarter of 2009, and a loan receivable repayment of \$23.2 million (repaid in U.S. dollars of US\$20.9 million), during the second quarter of 2009.

Interest expense increased during the third quarter of 2009, compared to the first half of 2009 due to an increase in interest expense relating to our up-financing of a fixed-rate debt at Suncor Energy Centre.

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 our 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 or at www.sedar.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 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 23 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 15 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 29% of our outstanding commercial and development property debt at September 30, 2009 is floating-rate debt (December 31, 2008 – 37%) and subject to fluctuations in interest rates. The effect of a 100-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 \$2.8 million on an annual basis or approximately \$0.10 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.

We currently have a level of indebtedness for the Company of 60% of gross book value. This level of indebtedness is considered by the Company to be within its target of 55% to 65%. Based on this, the Company believes that all debts will be financed or refinanced as they come due in the foreseeable future.

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 8.3% 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 6 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⁾
Rated					
Government of Canada	Various	2013	1,901	12.6	AAA
Bank of Montreal/Nesbitt Burns	Toronto, Ottawa, Calgary	2018	1,131	7.5	A+
Suncor Energy	Calgary	2028	1,015	6.7	BBB+
Imperial Oil	Calgary	2016	717	4.7	AAA
Talisman Energy	Calgary	2015	539	3.6	BBB
Enbridge Inc.	Calgary, Edmonton	2015	442	2.9	A-
RBC Financial Group	Toronto, Calgary, Vancouver	2024	438	2.9	AA-
Canadian Natural Resources	Calgary	2011	305	2.0	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	AA+
National Bank of Canada	Toronto	2013	146	1.0	A
Lombard Insurance	Toronto	2012	144	1.0	A-
Westcoast Energy	Calgary, Vancouver	2012	132	0.9	BBB+
HSBC Of Canada	Toronto	2011	109	0.7	AA
Xstrata (Falconbridge)	Toronto	2017	81	0.5	BBB
Other investment grade	Various	Various	523	3.5	BBB- or higher
			8,314	55.1	BBB- or higher
Bennett Jones	Toronto, Calgary	2015	306	2.0	
Osler, Hoskin & Harcourt	Toronto	2015	270	1.8	
Fraser Milner Casgrain	Toronto	2016	242	1.6	
The Hudson's Bay Company	Toronto	2019	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	
Compton Petroleum Corporation	Toronto	2018	151	1.0	
Crescent Point Resources Ltd.	Calgary	2020	140	0.9	
Davies Ward Philips Vineberg	Toronto	2013	119	0.8	
Citco (Canada) Inc.	Toronto	2018	99	0.7	
PricewaterhouseCoopers	Calgary	2015	95	0.6	
Precision Drilling Corp.	Calgary	2011	93	0.6	
Other government agencies	Various	Various	208	1.4	
Total			10,790	71.5	

⁽¹⁾ Weighted average based on square feet

⁽²⁾ Prior to considering partnership interests in partially owned properties and excludes parking

⁽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 8.6% of our leases mature annually over the next five years (the majority of which is in 2013). Our portfolio has a weighted-average lease life of seven 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 September 30, 2009:

(000's Sq. Ft.)	Currently Available	Remainder 2009	2016								Parking	Total
			2010	2011	2012	2013	2014	2015	& Beyond	Leasable		
Toronto	209	38	446	310	553	1,409	232	545	2,483	6,225	828	7,053
Ottawa	8	14	9	9	13	1,135	9	543	5	1,745	1,030	2,775
Calgary	12	14	181	680	461	502	154	1,181	2,759	5,944	968	6,912
Edmonton	6	—	48	55	7	9	28	132	306	591	121	712
Vancouver	35	3	17	71	62	84	7	61	249	589	264	853
Other	—	—	—	—	—	2	—	—	1	3	—	3
Total	270	69	701	1,125	1,096	3,141	430	2,462	5,803	15,097	3,211	18,308
% of total	1.8%	0.5%	4.6%	7.5%	7.3%	20.8%	2.8%	16.3%	38.4%	100.0%	—	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 business, 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.

Taking into account the current state of the economy, 2009 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 seven years. As we face the onset of a severe recession, it is possible we will see downward pressure on overall occupancy levels and net effective rents.

The Company has insurance covering certain acts of terrorism for up to \$1.0 billion of damage and resulting business interruption costs. The Company continues to seek additional coverage equal to the full replacement cost of its assets; however, until this type of coverage becomes commercially available on an economically reasonable basis, any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to the Company. 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 in offsetting an identified risk. 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 third quarter of 2009, our use of derivative financial instruments was limited to forward gas contracts. Unrealized gains and losses, representing the fair value of such contracts, are determined in reference to the appropriate forward rate for each contract at September 30, 2009 and are reflected in receivables and other assets or accounts payable and other liabilities, as appropriate, on the consolidated balance sheet.

The Company has entered into fixed gas-purchase contracts with a third party gas supplier, which covers the period November 1, 2008, to October 31, 2010. As of September 30, 2009, the remaining commitment for the Company to purchase gas for its facilities was \$3.1 million.

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 and gas prices. 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

We adopted the following new accounting policies, none of which individually or collectively had a material impact on our consolidated financial statements, unless otherwise noted. These changes were the result of changes to the Canadian Institute of Chartered Accountants (“CICA”) Handbook, Accounting Guidelines (“AcG”), or Emerging Issues Committee Abstracts (“EIC”).

Goodwill and Intangible Assets

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

December 31 (Millions)	2008
Retained earnings	
Opening balance at January 1, 2008 as previously reported	\$ 580.0
Cumulative impact of changes in accounting policy ⁽¹⁾	(0.5)
Opening balance at January 1, 2008 – as restated	\$ 579.5
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Ending balance at December 31, 2008 as previously reported	\$ 401.0
Cumulative impact of changes in accounting policy ⁽²⁾	(0.7)
Ending balance at December 31, 2008 – as restated	\$ 400.3

⁽¹⁾ A decrease of \$0.5 million to opening retained earnings, representing changes to recoverable capital expenditures prior to January 1, 2008 that do not qualify as an asset under Handbook Section 3064.

⁽²⁾ During the three and nine months ended September 30, 2008, an increase of \$nil and \$0.1 million to retained earnings, representing a reduction of \$0.1 million in depreciation and amortization, was recorded as a result of adopting Handbook Section 3064. Subsequent to September 30, 2008, a decrease of \$0.3 million to retained earnings, representing an increase of \$0.3 million to operating expenses, was recorded during the period ended December 31, 2008.

December 31 (Millions)	2008
Commercial properties	
Balance at December 31, 2008 as previously reported	\$ 1,338.7
Cumulative impact of changes in accounting policy	(0.7)
Balance at December 31, 2008 – as restated	\$ 1,338.0

FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments – Disclosures and Presentation

In June 2009, the CICA issued amendments to Section 3862, “Financial Statements – Disclosures” effective for the company’s December 31, 2009 financial statements. Specifically, the company will classify and disclose financial statements presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and the company’s own assumptions about market value: Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; Level 3 – Valuation techniques for which any significant inputs is not based on observable market data. The section has also been amended to require additional liquidity risk disclosures.

International Financial Reporting Standards (“IFRS”)

The Company has been granted exemptive relief from the Canadian securities regulatory authorities to prepare its financial statements in accordance with International Financial Reporting Standards (“IFRS”) for financial periods beginning on or after January 1, 2010, one year ahead of the mandatory conversion date for Canadian public companies. In light of the relief granted, the Company intends to adopt IFRS commencing with its interim financial statements for the three months ended March 31, 2010. Those financial statements will also include comparative results for the three months ended March 31, 2009.

IFRS Conversion Plan

The Company has prepared a comprehensive IFRS conversion plan which addresses changes in accounting policies, the restatement of comparative periods, various education and training sessions on the adoption of IFRS, as well as required changes to business processes and internal controls. The Company’s finance and accounting staff have been informed of the Company’s preliminary policies and procedures as they relate to IFRS. As a result of the training program and the preparation of a reconciliation of the Company’s historical Canadian GAAP financial statements to IFRS financial statements, the Company believes that its applicable personnel have obtained an appropriate understanding of IFRS as it applies to the Company’s financial reporting. While new controls are being put into place to address certain

unique IFRS accounting and disclosure requirements, the Company does not anticipate comprehensive changes to its current accounting and consolidation systems, its internal controls nor its disclosure control process as a result of the conversion to IFRS.

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not have an impact on the Company's reported net cash flows, the Company does expect it to have a material impact on its consolidated balance sheets and statements of income; the Company is continuing to evaluate the impact of IFRS to the presentation and classification in its statements of cash flow. In particular, the Company's opening balance sheet will reflect the revaluation of substantially all properties to fair value. In addition, the Company's intangible assets and liabilities will no longer be separately recognized. Also, certain joint ventures which are currently proportionately consolidated will be recorded as investments accounted for following the equity method. Finally, all changes to the opening balance sheet will require that a corresponding tax asset or liability be established based on the resultant differences between the carried value of assets and liabilities and their associated tax bases. The Company currently expects that the impact of all of these differences on its January 1, 2009 opening balance sheet under IFRS compared to its December 31, 2008 balance sheet under Canadian GAAP will result in an increase in common equity from \$479 million to approximately \$1,690 million or \$60 per share.

IFRS 1: First-Time Adoption of IFRS

The Company's adoption of IFRS will require the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions. The following is the optional exemption available under IFRS 1 which is significant to the Company and which the Company expects to apply in preparation of its first financial statements under IFRS:

a) Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, *Business Combinations* ("IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. BPO Properties intends to make this election in order to only apply IFRS 3 to business combinations prospectively (i.e. to those that occur on or after January 1, 2009).

IFRS 1 allows for certain other optional exemptions; however, the Company does not expect such exemptions to be significant to its adoption of IFRS.

Impact of IFRS on Financial Position

The following paragraphs quantify and describe the expected impact of significant differences between the Company's December 31, 2008 balance sheet under Canadian GAAP and its January 1, 2009 opening balance sheet under IFRS. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of BPO Properties' first annual IFRS reporting period, which the Company expects will be December 31, 2010. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of the Company's conversion to IFRS may be different than its current expectation. The amounts have not been audited or subject to review by the Company's external auditor. The underlying values presented below are prepared using the procedures and assumptions that the Company intends to follow in preparing its opening balance sheet upon adoption of IFRS.

Commercial Properties and Commercial Developments

The Company considers its commercial properties and commercial developments to be investment properties under IAS 40, *Investment Property* ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. The Company expects to use the fair value model when preparing its financial statements under IFRS. The Company expects the fair value of its commercial and development property portfolio to be approximately \$1,589 million greater than the carrying value under Canadian GAAP, inclusive of corresponding intangible assets and straight-line rent recorded under Canadian GAAP. However, this increase will be offset by the deconsolidation of certain of the Company's properties which is discussed further below (see *Investments*). The Company determined the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at January 1, 2009 less future cash outflows in respect of such leases. Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, and using weighted average discount and terminal capitalization rates of 7.4% and 6.7%, respectively.

Investments

The Company expects to have investments at January 1, 2009 of approximately \$125 million under IFRS. These investments relate primarily to entities that are proportionately consolidated under Canadian GAAP that will be equity accounted for under IFRS and accordingly included in the investments account of the Company.

Tenant Receivables and Other Assets

Straight line and free rent receivable as well as tenant inducement receivable reflected in tenant receivables and other assets under Canadian GAAP will be included in the carrying amount of commercial properties in the Company's balance sheets under IFRS. The Company expects its tenant receivables and other assets balance to decrease by approximately \$28 million under IFRS as a result of the

reclassification of straight line and free rent receivable and tenant inducement receivable balances to commercial property, as well as the impact of certain joint ventures as investments.

Intangible Assets and Liabilities

With the adoption of IFRS, the Company will derecognize its intangible assets and liabilities that relate to assets or obligations otherwise considered in the determination of fair value of investment properties at January 1, 2009. The Company expects this will result in a decrease to intangible assets and liabilities of approximately \$30 million and \$72 million, respectively.

Future Income Tax Liability

The Company expects its future income tax liability at January 1, 2009 to increase by approximately \$397 million under IFRS compared to its future income tax liability determined in accordance with Canadian GAAP. This change primarily relates to an increase in future income tax liabilities associated with the increased carrying values of the Company's commercial properties. The future income tax liability under IFRS will generally be determined by applying tax rates applicable to business income to temporary differences based on the Company's general expectation that the method of realization will be through owning and operating its properties rather than through sale.

Commercial Property Debt

The Company expects the reported balances of property specific mortgages and subsidiary borrowings at January 1, 2009 to decrease by approximately \$62 million under IFRS compared to balances reported in accordance with Canadian GAAP. The decrease primarily relates to the deconsolidation of debt held by entities that are proportionately consolidated under Canadian GAAP that will be equity accounted under IFRS.

Impact of IFRS on Results of Operations

The following paragraphs highlight the significant differences between Canadian GAAP and IFRS that affect net income for the nine month period ended September 30, 2009. Such discussion has been prepared on a basis consistent with all known IFRS to Canadian GAAP differences using the accounting policies expected to be applied by BPO Properties on its adoption of IFRS using the standards anticipated to be in effect at the time of transition. Consequently, to the extent the accounting policies expected to be applied by BPO Properties on adoption of IFRS change, new standards are issued that are required to be adopted by BPO Properties, or to the extent the Company identifies additional differences as it completes its assessment of IFRS, the amounts and discussion below may be impacted. The Company has not finalized its selection of certain policies. The amounts have not been audited or subject to review by the Company's external auditor.

Fair Value Changes

IFRS permits the measurement of investment property using the fair value model under IAS 40, *Investment Property*, which requires a gain or loss arising from a change in the fair value of investment property in the period to be recognized in income. Net income during any given period may be greater or less than as determined under Canadian GAAP depending on whether an increase or decrease in fair value occurs during the period of measurement.

Depreciation and Amortization Expense

Under the fair value model, depreciation of investment properties is not recorded. Additionally, the transition to IFRS in conjunction with the use of the fair value model would result in historic intangible balances established under Canadian GAAP in respect of business combinations to no longer be separately recognized and accordingly not amortized under IFRS. The impact of no longer amortizing historic intangible balances along with no longer recording depreciation expense on the Company's commercial properties would result in an increase to net income of approximately \$38 million for the nine months ended September 30, 2009 or approximately \$51 million on an annualized basis.

Revenue recognition

IFRS requires rental revenue to be determined on a straight-line basis considering all rentals from the inception of the lease, whereas Canadian GAAP only required rental income to be recognized on a straight-line basis prospectively commencing January 1, 2004. The Company expects that this difference, applied retrospectively, would result in a reduction of net income under IFRS. For the nine months ended September 30, 2009 this reduction is expected to be insignificant. Also, as the Company will no longer separately account for intangible assets and liabilities relating to acquired above and below market tenant leases, the related amortization of these balances to commercial property revenue will be eliminated under IFRS. This difference would result in a reduction of revenue and net income under IFRS of approximately \$7 million for the nine months ended September 30, 2009 or approximately \$9 million on an annualized basis.

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.

Our critical accounting policies are those that we believe are the most important in portraying our financial condition and results and

require the most subjective judgment and estimates on the part of management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is set forth in Note 1 to our consolidated interim financial statements.

IMPAIRMENT OF ASSETS

We review the long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates a potential impairment in value. An asset is considered impaired when the undiscounted future cash flows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is based in part on assumptions regarding future occupancy, rental rates, and capital requirements that could differ materially from actual results in future periods.

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 \$2.9 million and 8.6 million during the three and nine months ended September 30, 2009, respectively (compared to \$2.8 million and \$9.7 million during the same periods in 2008). The service-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 nine months ended September 30, 2009 totaled \$0.3 million and \$0.8 million respectively, which is consistent with the amounts during the same periods in 2008.

The Company has certain arrangements with an affiliate of Brookfield Asset Management Inc. ("BAM"), the ultimate parent of the Company, and BPC to provide various information technology services and with BPC to provide various administrative services including accounts payable processing and accounts receivable collection. The costs for these services for the three and nine months ended September 30, 2009 totaled \$2.4 million and \$7.5 million, respectively, consisting of \$1.5 million and \$4.6 million in operating costs and \$0.9 million and \$2.9 million in capital costs, and are charged to the Company on a cost recovery basis and replaced similar costs that were incurred directly by the Company in the prior year when these services were performed internally.

During the three and nine months ended September 30, 2009, interest income of \$nil and \$0.3 million (compared to \$1.3 million and \$5.9 million during the same periods in 2008) was recorded on the on-demand deposits issued to BPC. The full amount was repaid to the Company as of the first quarter of 2009.

Included in rental revenues during the three and nine months ended September 30, 2009, are amounts received from BAM, and its affiliates of \$0.1 million and \$0.4 million (compared to \$0.1 million and \$0.3 million during the same periods in 2008). 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.

DISTRIBUTIONS

Distributions paid by the Company during the three quarters of 2009 and the year ended 2008 are as follows:

	Three months ended Sept. 30, 2009	Three months ended Jun. 30, 2009	Three months ended Mar. 30, 2009	Year ended Dec. 31, 2008
Common shares ⁽¹⁾⁽²⁾	\$ 0.30	\$ 0.15	\$ 0.15	\$ 0.60
Preferred shares				
Series G	0.11	0.15	0.20	0.97
Series J	0.10	0.13	0.17	0.94
Series K	990.69	1,210.55	2,118.63	19,202.33
Series M	0.10	0.13	0.17	0.94
Series N	0.05	0.06	0.11	0.96

⁽¹⁾ Excludes the special common share dividend of \$4.95 and \$7.25 per share for the second quarter of 2009 and 2008, respectively

⁽²⁾ The ongoing quarterly dividend was increased by 100% to \$0.30 per common share with the first increase payable on Sept. 30, 2009 to shareholders of record at end of business day Sept. 1, 2009

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
November 6, 2009

Consolidated Balance Sheets

(Millions)	Notes	Sept. 30, 2009 (Unaudited)	Dec. 31, 2008 (Audited) (Restated—Note 2)
Assets			
Commercial properties	4	\$ 1,379.9	\$ 1,338.0
Commercial developments	5	733.3	689.1
Loans receivable	6	—	150.6
Intangible assets	7	25.4	30.3
Tenant receivables and other assets	8	80.2	82.3
Cash and cash equivalents	9	150.7	61.5
		\$ 2,369.5	\$ 2,351.8
Liabilities			
Commercial and development property debt	10	\$ 1,417.3	\$ 1,255.3
Intangible liabilities	11	64.5	71.9
Accounts payable and other liabilities	12	112.9	135.6
Future income tax liabilities	13	32.0	28.6
Shareholders' equity	14	742.8	860.4
		\$ 2,369.5	\$ 2,351.8

See accompanying notes to the consolidated interim financial statements

Consolidated Statements of Income and Comprehensive Income

(Unaudited) (Millions, except per-share amounts)	Notes	Three months ended Sept. 30		Nine months ended Sept. 30	
		2009	2008 (Restated-Note 2)	2009	2008 (Restated-Note 2)
Commercial Properties					
Revenue		\$ 85.4	\$ 84.6	\$ 257.5	\$ 254.7
Expenses		35.8	35.4	107.8	109.0
		49.6	49.2	149.7	145.7
Loans and investment income		0.2	4.0	3.1	12.4
		49.8	53.2	152.8	158.1
Expenses					
Interest expense	10	10.6	9.5	29.7	28.1
General and administrative expenses		5.8	5.1	16.1	15.4
		33.4	38.6	107.0	114.6
Depreciation and amortization		13.0	13.3	39.1	38.8
Income taxes	13	7.0	9.9	23.2	25.2
Net income and comprehensive income		13.4	15.4	44.7	50.6
Net income per common share	14	\$ 0.43	\$ 0.43	\$ 1.42	\$ 1.38

See accompanying notes to the consolidated interim financial statements

Consolidated Statements of Changes in Shareholders' Equity

(Unaudited) (Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008 (Restated-Note 2)	2009	2008 (Restated-Note 2)
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	78.4	78.8	78.4	78.8
Share repurchases	(0.1)	(0.2)	(0.1)	(0.2)
Balance at end of period	78.3	78.6	78.3	78.6
Retained earnings				
Balance at beginning of period	279.5	391.6	400.3	579.5
Net income	13.4	15.4	44.7	50.6
Preferred share dividends	(1.1)	(3.3)	(4.5)	(11.3)
Common share dividends	(8.5)	(4.3)	(157.2)	(219.4)
Amount paid in excess of the book value of common shares repurchased	(0.5)	(4.2)	(0.5)	(4.2)
Balance at end of period	282.8	395.2	282.8	395.2
Accumulated other comprehensive income ("AOCI")	—	—	—	—
Retained earnings and AOCI	282.8	395.2	282.8	395.2
Shareholders' equity at end of period	\$ 742.8	\$ 855.5	\$ 742.8	\$ 855.5

See accompanying notes to the consolidated interim financial statements

Consolidated Statements of Cash Flows

(Unaudited) (Millions)	Notes	Three months ended Sept. 30		Nine months ended Sept. 30	
		2009 (Restated-Note 2)	2008	2009 (Restated-Note 2)	2008
Operating activities					
Net income		\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6
Add (deduct):					
Depreciation and amortization		13.0	13.3	39.1	38.8
Future income taxes		—	2.7	5.1	7.5
Amortization of above/below market in-place operating leases		(2.2)	(3.7)	(7.2)	(10.2)
Amortization of deferred debt financing costs		0.7	0.8	3.5	2.9
Loan discount amortization and foreign exchange		—	(0.4)	2.4	(0.8)
Deferred leasing costs		(0.6)	(2.0)	(2.1)	(2.9)
Decrease (increase) in receivables		5.4	2.0	12.6	(0.9)
(Increase) decrease in other assets		(1.0)	0.3	(2.8)	(1.1)
(Decrease) increase in accounts payable and other liabilities		(8.7)	(3.5)	(12.8)	31.2
Cash flows provided by operating activities		20.0	24.9	82.5	115.1
Investing activities					
Development and redevelopment expenditures		(36.2)	(65.5)	(113.5)	(188.1)
Capital expenditures		(3.1)	(4.5)	(8.3)	(13.0)
Commercial property tenant improvements		(2.4)	(1.5)	(6.9)	(3.8)
Dispositions of properties, net	19	—	—	—	3.3
Restricted cash and cash deposits		—	—	(8.9)	—
Advances to related parties	6	—	—	—	(125.0)
Repayments from related parties	6	—	—	125.0	220.3
Loans receivable - collections		—	—	23.2	41.8
Cash flows (used in) provided by investing activities		(41.7)	(71.5)	10.6	(64.5)
Financing activities					
Commercial and development property debt amortization		(3.5)	(3.3)	(11.3)	(11.4)
Commercial and development property debt repayments		—	(6.3)	(152.2)	(238.3)
Commercial and development property debt arranged		45.2	78.4	323.7	459.4
Amortization of debt premiums		(0.7)	(0.5)	(1.9)	(1.7)
Repurchase of common shares		(0.5)	(4.4)	(0.5)	(4.4)
Common share dividends paid		(8.5)	(4.3)	(157.2)	(219.4)
Preferred share dividends paid		(1.1)	(3.3)	(4.5)	(11.3)
Cash flows provided by (used in) financing activities		30.9	56.3	(3.9)	(27.1)
Increase in cash and cash equivalents		9.2	9.7	89.2	23.5
Cash and cash equivalents, beginning of period		141.5	51.5	61.5	37.7
Cash and cash equivalents, end of period	9,19	\$ 150.7	\$ 61.2	\$ 150.7	\$ 61.2

See accompanying notes to the consolidated interim financial statements

Notes to the Consolidated Interim 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 of these consolidated interim financial statements. Financial information in this report reflects any 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 restated as a result of changes in accounting policies (see Note 2).

NOTE 2: CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

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

December 31 (Millions)	2008
Retained earnings	
Opening balance at January 1, 2008 as previously reported	\$ 580.0
Cumulative impact of changes in accounting policy ⁽¹⁾	(0.5)
Opening balance at January 1, 2008 – as restated	\$ 579.5
Ending balance at December 31, 2008 as previously reported	\$ 401.0
Cumulative impact of changes in accounting policy ⁽²⁾	(0.7)
Ending balance at December 31, 2008 – as restated	\$ 400.3

⁽¹⁾ A decrease of \$0.5 million to opening retained earnings, representing changes to recoverable capital expenditures prior to January 1, 2008 that do not qualify as an asset under Handbook Section 3064.

⁽²⁾ During the three and nine months ended September 30, 2008, an increase of \$nil and \$0.1 million to retained earnings, representing a reduction of \$0.1 million in depreciation and amortization, was recorded as a result of adopting Handbook Section 3064. Subsequent to September 30, 2008, a decrease of \$0.3 million to retained earnings, representing an increase of \$0.3 million to operating expenses, was recorded during the period ended December 31, 2008.

December 31 (Millions)	2008
Commercial properties	
Balance at December 31, 2008 as previously reported	\$ 1,338.7
Cumulative impact of changes in accounting policy	(0.7)
Balance at December 31, 2008 – as restated	\$ 1,338.0

NOTE 3: FUTURE ACCOUNTING POLICY CHANGES

Financial Instruments – Disclosures and Presentation

In June 2009, the CICA issued amendments to Section 3862, “Financial Statements – Disclosures” effective for the company’s December 31, 2009 financial statements. Specifically, the company will classify and disclose financial statements presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and the company’s own assumptions about market value: Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; Level 3 – Valuation techniques for which any significant inputs is not based on observable market data. The section has also been amended to require additional liquidity risk disclosures.

NOTE 4: COMMERCIAL PROPERTIES

A breakdown of commercial properties is as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008 (Restated – Note 2)
Commercial properties		
Land	\$ 159.1	\$ 153.5
Building and improvements	1,468.5	1,399.1
Total commercial properties	1,627.6	1,552.6
Less: accumulated depreciation	(247.7)	(214.6)
Total	\$ 1,379.9	\$ 1,338.0

At September 30, 2009, commercial properties with a net book value of approximately \$531.6 million (compared to \$539.7 million on December 31, 2008), are situated on land held under leases or other agreements largely expiring after the year 2065. Minimum rental payments in respect of ground leases related to commercial real estate properties are approximately \$4.2 million annually for the next five years and \$20.9 million in total on an undiscounted basis. Amounts payable under ground leases ranging from 2 to 106 years are included in the above amounts.

Depreciation and amortization on commercial properties for the three and nine months ended September 30, 2009 was \$11.3 million and \$33.1 million (compared to \$10.8 million and \$30.7 million during the same periods in 2008).

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 nine months ended September 30, 2009, the Company capitalized costs totaling \$25.9 million and \$104.1 million (compared to \$66.1 million and \$188.7 million during the same periods in 2008). Included in this amount is \$4.4 million and \$53.0 million of construction and related costs (compared with \$55.0 million and \$156.9 million during the same periods in 2008), \$7.5 million and \$22.8 million of interest capitalized (compared with \$7.5 million and \$21.7 million during the same periods in 2008), \$11.8 million and \$16.1 million of property taxes and other (compared with \$3.6 million and \$10.1 million during the same periods 2008), and \$2.2 million and 12.2 million of tenant improvements (compared with \$nil during the same periods in 2008), related to commercial developments for the three and nine months ended September 30, 2009.

NOTE 6: LOANS RECEIVABLE

The components of loans receivable are as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Loans receivable	\$ —	\$ 150.5
Accrued interest	—	0.1
Total	\$ —	\$ 150.6

During the first quarter of 2009, the Company received payment of the full outstanding balance of the \$125.0 million (December 31, 2008 - \$125.0 million) on-demand deposit with its parent company Brookfield Properties Corporation (“BPC”). For the three and nine months ended September 30, 2009, interest income earned on this loan was \$nil and \$0.3 million (compared to \$1.3 million and \$5.9 million during the same periods in 2008).

During the second quarter of 2009, a loan receivable (at par value plus accrued interest) of \$23.2 million (December 31, 2008 – \$25.5 million) was repaid in U.S. dollars of US\$20.9 million. The Company also recorded a gain on settlement of our quarterly hedge resulting in a gain of \$1.5 million in the second quarter, which offsets the weakening of the U.S dollar since December 31, 2008. For the three and nine months ended September 30, 2009, interest income related to this loan of \$nil and \$1.2 million was recorded, compared with \$0.6 million and \$1.8 million during the same periods in 2008.

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 from time to time 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.

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)	Sept. 30, 2009	Dec. 31, 2008
Intangible assets		
Lease-origination costs	\$ 40.4	\$ 40.4
Tenant relationships	6.5	6.5
Above-market in-place operating leases	2.0	2.0
	48.9	48.9
Less accumulated amortization		
Lease-origination costs	(20.3)	(16.2)
Tenant relationships	(2.2)	(1.6)
Above-market in-place operating leases	(1.0)	(0.8)
Total	\$ 25.4	\$ 30.3

Amortization on intangible assets for the three and nine months ended September 30, 2009 was \$1.5 million and \$4.9 million (compared to \$2.2 million and \$7.0 million during the same period in 2008).

NOTE 8: TENANT RECEIVABLES AND OTHER ASSETS

A breakdown of tenant receivables and other assets is as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Tenant and other receivables	\$ 31.1	\$ 44.4
Straight-line rent receivable	18.9	18.3
Prepaid expenses and other assets	20.2	18.5
Restricted cash	10.0	1.1
Total	\$ 80.2	\$ 82.3

During the quarter ended September 30, 2009, the Company recorded \$0.2 million (compared to \$0.6 million on December 31, 2008) as a reserve against uncollectible tenant receivables.

As of September 30, 2009, approximately \$0.2 million of the Company's balance of accounts receivables is over 90 days due (compared to approximately \$0.8 million on December 31, 2008).

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. Currently no one tenant represents more than 12.6% of total leasable area and 8.3% of tenant receivables. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings. The Company has a lease expiry profile of 0.5% for the remainder of this year, 4.6% in 2010, 7.5% in 2011 and 7.3% in 2012.

Cash and deposits are considered restricted when they are subject to contingent rights of third parties. It also includes cash as collateral against letters of credit issued for performance under certain contracts. As of September 30, 2009, restricted cash was \$10.0 million (compared with \$1.1 million on December 31, 2008).

NOTE 9: CASH AND CASH EQUIVALENTS

For the three and nine months ended September 30, 2009, interest income of \$0.1 million and \$0.7 million, was recorded on cash and cash equivalents, compared with \$0.5 million and \$2.2 million during the same periods in 2008. Cash and cash equivalents invested in overnight term deposits earned an average interest rate of 0.5% during the quarter. At September 30, 2009, the Company had \$3.2 million of cash placed in term deposits (December 31, 2008 - \$nil).

NOTE 10: COMMERCIAL AND DEVELOPMENT PROPERTY DEBT

Commercial property mortgages are secured by individual properties generally without recourse to the Company, except for the loans at Suncor Energy Centre, Hudson's Bay Centre, and Bay Adelaide Centre, which have limited recourse. Approximately 95% of the Company's commercial and development property debt is due after 2009.

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 Sept. 30, 2009
Remainder of 2009	\$ 6.3	\$ 62.9	\$ 69.2	8.0%
2010	25.7	404.8	430.5	1.8%
2011	18.3	97.3	115.6	7.5%
2012	14.4	195.6	210.0	5.9%
2013	10.2	276.8	287.0	6.3%
2014 and thereafter	8.0	297.0	305.0	6.2%
Total	\$ 82.9	\$ 1,334.4	\$ 1,417.3	5.1%

The weighted-average interest rate at September 30, 2009 was 5.1% (compared to 5.6% on December 31, 2008).

Included in commercial and development property debt at September 30, 2009 are \$6.3 million of net deferred financing costs (compared to \$7.3 million on December 31, 2008) and \$2.3 million of premiums related to mortgages assumed upon acquisition (compared to \$4.1 million on December 31, 2008).

For the three and nine months ended September 30, 2009, interest expense of \$18.1 million and \$52.5 million, respectively (compared to \$17.0 million and \$49.8 million during the same periods in 2008) was recorded on commercial and development property debt, of which \$7.5 million and \$22.8 million, respectively (compared to \$7.5 million and \$21.7 million during the same periods in 2008) was capitalized to commercial developments.

Approximately 29% of the Company's outstanding commercial and development property debt at September 30, 2009 is floating rate debt (compared to 37% on December 31, 2008). The effect of a 100 basis-point increase in interest rates on interest expense relating to floating rate debt, all else being equal, is an increase of \$2.8 million, net of taxes, on an annual basis or approximately \$0.10 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, as well as obtain fixed-rate debt 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 totaling \$62.9 million maturing in the fourth quarter of 2009, representing approximately 5% of the Company's total debt outstanding at September 30, 2009.

NOTE 11: 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)	Sept. 30, 2009	Dec. 31, 2008
Intangible liabilities		
Below-market in-place operating leases	\$ 56.7	\$ 56.8
Above-market ground lease obligations	45.8	45.8
	102.5	102.6
Less accumulated amortization		
Below-market in-place operating leases	(28.0)	(22.6)
Above-market ground lease obligations	(10.0)	(8.1)
Total	\$ 64.5	\$ 71.9

Amortization on intangible liabilities for the three and nine months ended September 30, 2009, was \$2.2 million and \$7.4 million (compared to \$3.7 million and \$10.4 million during the same periods in 2008). Approximately \$0.1 million of fully amortized intangible liabilities and the corresponding accumulated amortization were written off during the nine months ended September 30, 2009. No amounts were written off during the three months ended September 30, 2009.

NOTE 12: ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Accounts payable and accrued liabilities	\$ 103.4	\$ 131.3
Accrued interest	9.5	4.3
Total	\$ 112.9	\$ 135.6

NOTE 13: INCOME TAXES

Future income tax liabilities consist of the following:

(Millions)	Sept. 30, 2009	Dec. 31, 2008
Future income tax assets related to operating and capital losses	\$ (10.6)	\$ (13.7)
Future income tax liabilities related to differences between tax and book basis	42.6	42.3
Total	\$ 32.0	\$ 28.6

At September 30, 2009, the Company had net operating loss carry forwards of approximately \$24.7 million (compared to \$34.7 million on December 31, 2008) 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.

Income tax expense is calculated as follows:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Income tax expense at the Canadian federal and provincial income tax rate of 32.0% (2008 – 32.0%)	\$ 6.5	\$ 8.0	\$ 21.7	\$ 24.2
Increase in income tax expense due to the following:				
Other	0.5	1.9	1.5	1.0
Total	\$ 7.0	\$ 9.9	\$ 23.2	\$ 25.2

The major components of income tax expense include the following:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Current tax expense	\$ 7.0	\$ 7.2	\$ 18.1	\$ 17.7
Future tax expense	—	2.7	5.1	7.5
Total	\$ 7.0	\$ 9.9	\$ 23.2	\$ 25.2

NOTE 14: SHAREHOLDERS' EQUITY

The components of shareholders' equity are as follows:

(Millions)	Sept. 30, 2009	Dec. 31, 2008 (Restated-Note 2)
Preferred shares	\$ 381.7	\$ 381.7
Common shares	78.3	78.4
Retained earnings	282.8	400.3
AOCI	—	—
Total	\$ 742.8	\$ 860.4

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	Sept. 30, 2009	Dec. 31, 2008
			\$	\$
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 \$1.1 million and \$4.5 million, were paid during the three and nine months ended September 30, 2009, (compared to \$3.3 million and \$11.3 million during the same periods in 2008).

(b) Common shares

Total common shares issued and outstanding at September 30, 2009 totaled 28.3 million shares, which included 21.7 million non-voting equity shares, and is consistent with the balance at December 31, 2008. During the third quarter of 2009 the Company repurchased 12,000 common shares at an average price of \$44.38 per share. The book value of the common shares was approximately \$33,000; and the excess amount paid over the book value was recorded as a reduction to retained earnings.

Common share dividends totaling \$8.5 million and \$17.0 million were paid during the three and nine months ended September 30, 2009, respectively (compared to \$4.3 million and \$12.9 million during the same periods in 2008). During the second quarter of 2009 and 2008, the Company also paid special common share dividends of \$140.2 million and \$206.5 million or \$4.95 and \$7.25 per common share, respectively.

During the quarter ended September 30, 2009, the Company declared a 100% increase in the on-going quarterly common share dividend from \$0.15 to \$0.30 per share. The first increase was paid on September 30, 2009 to the shareholders of record at the close of business on September 1, 2009.

(c) Earnings per share

Net income available to common shareholders and weighted average common shares outstanding are calculated as follows:

(Millions – except per-share amounts)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
	(Restated-Note 2)		(Restated-Note 2)	
Net income	\$ 13.4	\$ 15.4	\$ 44.7	\$ 50.6
Preferred share dividends	(1.1)	(3.3)	(4.5)	(11.3)
Net income available to common shareholders	\$ 12.3	\$ 12.1	\$ 40.2	\$ 39.3
Weighted-average shares outstanding	28.3	28.4	28.3	28.5
Net income per common share	\$ 0.43	\$ 0.43	\$ 1.42	\$ 1.38

There were no dilutive instruments outstanding.

NOTE 15: 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 September 30, 2009, the Company has commitments totaling \$2.4 million to third parties for the development projects of Bay Adelaide Centre in Toronto.

(c) The Company has previously entered into fixed gas-purchase contracts with a third party gas supplier, which covers the period November 1, 2008 to October 31, 2010. As of September 30, 2009, the remaining commitment for the Company to purchase gas for its facilities is \$3.1 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 debt and \$35.0 million related to the Suncor Energy Centre 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 operations of the Company.

(g) The Company has insurance covering certain acts of terrorism for up to \$1.0 billion of damage and resulting business interruption costs. The Company continues to seek additional coverage equal to the full replacement cost of its assets; however, until this type of coverage becomes commercially available on an economically reasonable basis, any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to the Company. 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 16: SEGMENTED INFORMATION

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

NOTE 17: 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 \$2.9 million and \$8.6 million, respectively, during the three and nine months ended September 30, 2009 (compared to \$2.8 million and \$9.7 million during the same periods in 2008). The service-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 nine months ended September 30, 2009 totaled \$0.3 million and \$0.8 million, which is consistent with the amount during the same periods in 2008.

The Company has certain arrangements with an affiliate of Brookfield Asset Management Inc. ("BAM"), the ultimate parent of the Company, and BPC to provide various information technology services and with BPC to provide various administrative services including accounts payable processing and accounts receivable collection. The costs for these services for the three and nine months ended September 30, 2009 totaled \$2.4 million and \$7.5 million, respectively, consisting of \$1.5 million and \$4.6 million in operating costs and \$0.9 million and \$2.9 million in capital costs, and are charged to the Company on a cost recovery basis and replaced similar costs that were incurred directly by the Company in the prior year when these services were performed internally.

During the three and nine months ended September 30, 2009, interest income of \$nil and \$0.3 million (compared to \$1.3 million and \$5.9 million during the same periods in 2008) was recorded on the on-demand deposits issued to BPC. The full amount was repaid to the Company as of the first quarter of 2009.

Included in rental revenues during the three and nine months ended September 30, 2009, are amounts received from BAM, and its affiliates of \$0.1 million and \$0.4, respectively, (compared to \$0.1 million and \$0.3 million during the same periods in 2008). 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 18: CAPITAL MANAGEMENT AND LIQUIDITY

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

The Company continually strives to reduce its weighted average cost of capital and improve common shareholders' equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at September 30, 2009, the Company's weighted-average cost of capital, assuming a 12.0% return on equity, was 7.0%.

The following schedule details the components of the Company's capital as at September 30, 2009 and the related costs thereof:

(Millions, except cost of capital data)	Cost of Capital ⁽¹⁾		Underlying Value ⁽²⁾	
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2009	Dec. 31, 2008
Liabilities				
Commercial and development property debt	5.1%	5.6%	\$ 1,417.3	\$ 1,255.3
Shareholders' equity				
Preferred shares	1.2%	3.8%	381.7	381.7
Common shares ⁽³⁾	12.0%	12.0%	1,416.4	679.2
Total⁽⁴⁾	7.0%	6.2%	\$ 3,215.4	\$ 2,316.2

⁽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 at September 30, 2009. Underlying value of preferred equity is based on the book value of preferred shares

⁽³⁾ Determined on a market value basis and assumes a 12% return on equity

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

At September 30, 2009, a 1.0% decrease in return on equity results in a weighted-average cost of capital decrease of 0.4% (compared to 0.3% on December 31, 2008).

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 between 55% and 65% when the market permits. 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 currently has a level of indebtedness of 60% of gross book value. This level of indebtedness is considered by the Company to be within its target.

The Company is subject to certain covenants on its borrowings including debt service coverage and loan to value thresholds. As of September 30, 2009, the Company was in compliance with all of its covenants.

The Company's strategy is to satisfy its liquidity needs 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. The Company finances its development operations and on-going working capital requirements with development debt and accounts payable. Another source of cash flow includes third-party fees generated by the Company's asset management, leasing and development businesses. Consequently, the Company's plans to meet its short-term liquidity needs with revenue along with proceeds from financing activities.

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. The Company's strategy is to meet these needs with one or more of the following:

- cash flow from operations;
- construction loans;
- creation of new funds;
- proceeds from sales of assets; and
- credit facilities and refinancing opportunities.

The Company attempts to match the maturity of its commercial and development property debt portfolio with the average lease terms of its properties. At September 30, 2009, the average term to maturity of the Company's commercial and development property debt portfolio was four years and the Company's average lease term of its properties was approximately seven years. The Company will continue to make efforts to match the maturity of the commercial property debt portfolio with the average lease term of its properties.

NOTE 19: OTHER INFORMATION

Supplemental cash flow information:

(Millions)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2009	2008	2009	2008
Dispositions of real estate	\$ —	\$ —	\$ —	\$ 3.3
Cash taxes paid	\$ —	\$ —	\$ 12.0	\$ —
Cash interest paid	\$ 13.2	\$ 11.6	\$ 45.3	\$ 40.0

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)	2009	2008	2007	2006	2005
March 31	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15
June 30	0.15 ⁽¹⁾	0.15 ⁽²⁾	0.15	0.15	0.15
September 30 ⁽³⁾	0.30	0.15	0.15	0.15	0.15
December 31		0.15	0.15	0.15	0.15

⁽¹⁾ Excludes the special common share dividend of \$4.95 per share

⁽²⁾ Excludes the special common share dividend of \$7.25 per share

⁽³⁾ The ongoing quarterly dividend was increased by 100% to \$0.30 per common share with the first increase paid on Sept. 30, 2009 to shareholders of record at end of business day Sept. 1, 2009

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 28 commercial properties totaling 18.3 million square feet and eight development properties totaling 5.4 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.

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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
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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



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