

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

For the Year Ended December 31, 2005

Management's Responsibility for the Financial Statements

The management of Allied Properties Real Estate Investment Trust (the "REIT") is responsible for the integrity and fairness of the information presented. These financial statements were prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and where necessary, include amounts, which are based on best estimates and judgement of management.

Management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

The Board of Trustees oversees management's responsibility for financial reporting through an Audit Committee, which is composed entirely of outside trustees. The Audit Committee reviews the consolidated financial statements with both management and the independent auditors before such statements are approved by the Board of Trustees and submitted to Unitholders of the REIT.

BDO Dunwoody LLP, the independent auditors of the REIT, have examined the consolidated financial statements of the REIT in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. The Auditors of the REIT had full and free access to, and meet periodically with the Audit Committee.

(signed) "Michael R. Emory"
Michael R. Emory
President and Chief Executive Officer

(signed) "Tom Wenner"
Tom Wenner, CA
Chief Financial Officer

Auditors' Report

**To the Unitholders of
Allied Properties Real Estate Investment Trust**

We have audited the consolidated balance sheets of Allied Properties Real Estate Investment Trust as at December 31, 2005 and 2004 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants

Toronto, Ontario
February 10, 2006

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED BALANCE SHEET**

(in thousands)	Note	December 31, 2005	December 31, 2004
ASSETS			
Rental properties	4	\$ 336,606	\$ 239,852
Properties under development		6,564	-
Deferred expenses	5	28,027	17,960
Other assets	6	13,341	9,023
		\$ 384,538	\$ 266,835
LIABILITIES			
Mortgages payable	7	\$ 198,876	\$ 144,350
Bank indebtedness	7	12,045	10,971
Accounts payable and other liabilities	8	15,258	12,351
Distributions payable		1,575	987
		227,754	168,659
UNITHOLDERS' EQUITY	9	156,784	98,176
		\$ 384,538	\$ 266,835

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Trustees

"Gordon Cunningham"

Gordon Cunningham
Trustee

"Michael R. Emory"

Michael R. Emory
Trustee

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY**

(in thousands)

	Notes	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Total
Unitholders' equity, December 31, 2003		\$ 72,229	\$ (4,862)	\$ 6,434	\$ (5,868)	\$ 67,933
Year Ended December 31, 2004						
Net income		-	-	7,867	-	7,867
Distributions		-	-	-	(10,506)	(10,506)
Public offering		32,190	(1,841)	-	-	30,349
Distribution reinvestment plan		932	-	-	-	932
Unit options plan - options exercised		1,405	-	-	-	1,405
Long-term incentive plan		221	(25)	-	-	196
Unitholders' equity, December 31, 2004		\$ 106,977	\$ (6,728)	\$ 14,301	\$ (16,374)	\$ 98,176
Year Ended December 31, 2005						
Net income		\$ -	\$ -	\$ 1,392	\$ -	\$ 1,392
Distributions		-	-	-	(16,761)	(16,761)
Public offering		74,950	(3,754)	-	-	71,196
Distribution reinvestment plan		1,224	-	-	-	1,224
Unit option plan - options exercised	11	1,230	-	-	-	1,230
Long-Term incentive plan	12	327	-	-	-	327
Unitholders' equity, December 31, 2005		\$ 184,708	\$ (10,482)	\$ 15,693	\$ (33,135)	\$ 156,784

The accompanying notes are an integral part of these financial statements.

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENT OF EARNINGS**

(in thousands, except unit and per unit amounts)

	Notes	Year Ended December 31, 2005	Year Ended December 31, 2004
Revenues			
Rental properties	\$	51,170	\$ 34,565
Real estate services		422	-
		51,592	34,565
Expenses			
Rental property operating		18,264	12,028
Real estate services		260	-
Financing		9,558	6,997
Trust		2,001	1,565
Amortization of rental properties		6,071	4,209
Amortization of deferred expenses		6,153	1,899
Amortization of computer and office equipment		16	-
Internalization of property management	2(b)	7,877	-
		50,200	26,698
Net income for the year	\$	1,392	\$ 7,867
Net income per unit			
Basic	\$	0.099	\$ 0.874
Fully diluted	\$	0.098	\$ 0.864
Weighted average number of units	10		
Basic		14,004,054	8,996,471
Fully diluted		14,249,424	9,101,163

The accompanying notes are an integral part of these financial statements.

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands)

	Notes	Year Ended December 31, 2005	Year Ended December 31, 2004
CASH PROVIDED BY (USED IN):			
Operating activities			
Net income		\$ 1,392	\$ 7,867
Items not affecting cash			
Amortization of rental properties		6,071	4,209
Amortization of computer and office equipment		16	-
Amortization of deferred expenses		6,153	1,899
Step rent adjustments		(1,381)	(1,325)
Mark to market rent adjustments		229	(18)
Amortization, premium on assumed mortgages		(530)	(444)
Interest benefit granted under long-term incentive plan		109	89
		12,059	12,277
Change in other non-cash operating items		(4,200)	1,401
Cash from operating activities		7,859	13,678
Investing activities			
Rental properties acquired, net of non-cash consideration	2 (a)	(92,756)	(97,553)
Properties under development acquired		(6,505)	-
Identifiable assets acquired, net of non-cash consideration	2 (b)	(967)	-
Capital expenditures, rental properties and other assets		(1,390)	(1,978)
Capital expenditures, properties under development		(59)	-
Deferred recoverable expenses		(16)	-
Deferred leasing costs		(1,970)	(2,518)
Cash used in investing activities		(103,663)	(102,049)
Financing Activities			
Repayment of mortgages payable		(22,432)	(6,201)
Proceeds from new mortgages payable		59,900	61,474
Deferred financing costs		(542)	(887)
Distributions		(14,949)	(9,240)
Proceeds of public offering (net of issue costs)		71,196	30,349
Proceeds from exercise of unit options		1,230	1,405
Proceeds from units issued under the LTIP (net of issue costs)	12	327	195
Net increase in short-term revolving credit facilities		1,580	12,273
Cash provided by financing activities		96,310	89,368
Increase in cash and cash equivalents		506	997
Cash and cash equivalents, beginning of year		1,302	305
Cash and cash equivalents, end of year		\$ 1,808	\$ 1,302
Other cash flow information			
Interest paid		\$ 9,947	\$ 7,111
Supplemental disclosure of non-cash activities			
Units issued pursuant to the distribution reinvestment plan		\$ 1,224	\$ 932

The accompanying notes are an integral part of these financial statements.

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
(In thousands of dollars except per unit and unit amounts)
December 31, 2005 and December 31, 2004

1. The Trust

Allied Properties Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

These financial statements present the financial position of the REIT as at December 31, 2005 and the results of operations and cash flow for the year ended December 31, 2005.

2. Acquisitions

(a) Rental Properties

Net assets with respect to rental properties acquired were as follows (using the purchase method of accounting):

	Year Ended December 31, 2005	Year Ended December 31, 2004
Rental properties	\$101,566	\$ 88,339
Other assets	131	553
Fair value of in-place leases and tenant relationships	12,730	14,705
Fair value of above-market leases	2,764	4,463
Fair value of below-market leases	(1,795)	(1,379)
Mortgages payable	(17,591)	(7,425)
Accounts payable and accrued liabilities	(5,049)	(1,703)
Cash consideration paid for the net assets acquired	\$92,756	\$ 97,553

The REIT allocates the purchase price of an acquired rental property on a preliminary basis, to the identified assets and liabilities acquired based on their estimated fair values at the time of acquisition. The purchase prices allocations are considered preliminary until the REIT has obtained the necessary information to complete its allocations.

(b) Property Management Business

Effective July 1, 2005, the REIT acquired, through wholly owned subsidiaries set out in Note 3 (b), the property management business from Allied Canadian Corporation for a cash purchase price of \$8,500 and additional consideration of up to \$900, contingent on the achievement of profitability criteria of the property management business for the year ended December 31, 2006, plus legal advisory and other costs.

The REIT accounted for the acquisition in accordance with EIC 138 "Internalization of the Management Function in Royalty and Income Trust.

The following costs incurred are in connection with the internalization of the management function and have been recorded as an expense in the consolidated statement of earnings for the year ended December 31, 2005:

Year Ended December 31, 2005

Property management contract termination fee	\$7,533
Legal, advisory and other costs	344
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Internalization of property management	\$7,877

Identifiable assets acquired have been recorded at the fair values as follows:

Computer and office equipment	\$ 77
Intangible assets – contracts and customer relationships	959
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Assumption of capital lease obligations	1,036 (69)
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Total cash paid for identifiable assets	\$ 967

Upon the settlement of the contingent consideration, management will determine the allocation between property management contract termination fee and contracts and customer relationships.

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The REIT's financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Basis of Consolidation

The REIT's consolidated financial statements include the accounts of the REIT's subsidiaries as follows:

Entity	Interest Held on December 31, 2005	Interest Held on December 31, 2004	Accounting Method
Allied Properties Management Limited Partnership	100%	0%	Consolidation
Allied Properties Management Trust	100%	0%	Consolidation
Allied Properties Management GP Limited	100%	0%	Consolidation

(c) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of three months or less.

(e) Rental Properties

Rental properties include land, buildings, improvements and acquisition costs that are capitalized as part of the cost of rental properties.

Rental properties are stated at the lower of cost less accumulated amortization and fair value. If conditions indicate the carrying amount may not be recoverable, the REIT determines if an impairment exists and a write-down to fair value is needed by comparing the carrying amount to the net recoverable

amount. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the properties together with the residual value of the properties.

Amortization on buildings is recorded on the straight-line basis over the useful life of the buildings, estimated at 40 years.

Upon the acquisition of rental properties, the REIT evaluates all in-place tenant lease agreements to determine if the leases are at, below or above market rates. If a lease is determined to be above or below market rates, a corresponding asset or liability is recorded and amortized into income over the life of the lease. Also at the time of acquisition, an asset representing the fair value of the costs of the leasing commissions and tenant inducements that the REIT would have otherwise incurred if it had originated each lease agreement acquired is recorded and amortized over the lease's remaining life. Furthermore, an asset representing the fair value, if any, of the relationship with a customer or tenant is created upon the acquisition of the property.

(f) Computer and Office Equipment

Depreciation on computer and office equipment is recorded on a straight-line basis over estimated useful lives of three years.

(g) Distribution Reinvestment Plan (DRIP)

The REIT has instituted a DRIP whereby Canadian unitholders may elect to have their distributions automatically reinvested in additional units. Unitholders who so elect will receive a further distribution of units equal in value to 5% of each distribution that was reinvested. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(h) Revenue Recognition

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Rental revenue with respect to rents from tenants under leases is recognized rateably over the term of the lease. Real estate services revenue is recorded on an accrual basis as services are provided.

(i) Unit-based Compensation Plan

The REIT accounts for employee unit-based options by measuring the compensation cost for options granted on or after January 1, 2002 under the fair value-based method using a Black-Scholes option pricing model.

(j) Per Unit Calculations

Basic earnings per unit is calculated by dividing net earnings by the weighted average number of units outstanding for the year, excluding those units issued under the Long Term Incentive Plan, which are not fully paid up. The calculations of earnings per unit on a diluted basis consider the potential exercise of outstanding unit purchase options, if dilutive, and are calculated using the treasury stock method. The calculation of earnings per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

(k) Contracts and Customer Relationships

Contracts and customer relationships included in deferred expenses consists of the values assigned to property management clients upon initial acquisition and are amortized on a straight-line basis over their estimated useful lives of 10 years.

(I) Comparative Amounts

The comparative amounts presented in the consolidated financial statements have been restated to conform to the current year's presentation.

4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount December 31, 2005	Net Carrying Amount December 31, 2004
Land	\$ 64,375	\$ -	\$ 64,375	\$ 37,245
Building, improvements and other costs	283,300	11,069	271,231	202,607
	\$ 347,675	\$ 11,069	\$ 336,606	\$ 239,852

5. Deferred Expenses

Deferred expenses consist of costs incurred by the REIT, net of accumulated amortization of \$8,103 (December 31, 2004 - \$1,950), with respect to obtaining debt financing, leasing costs incurred, the fair value attributed to in-place leases acquired, the fair value attributed to customer relationships with respect to rental property acquisitions and amounts recorded on the acquisition of the property manager – contracts and customer relationships. Amortization is recorded on a straight-line basis over the term of the respective credit facility and over the remaining term of the respective leases to which the costs or fair value relate.

	Cost	Accumulated Amortization	Net Carrying Amount December 31, 2005	Net Carrying Amount December 31, 2004
Tenant inducements and leasing costs incurred through leasing activities	\$ 4,970	\$ 871	\$ 4,099	\$2,750
Deferred financing costs	1,603	373	1,230	904
Amounts ascribed to leasing costs and tenant relationships on rental properties acquired	28,582	6,811	21,771	14,306
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	48	911	-
Recoverable expenditures	16	-	16	-
	\$ 36,130	\$ 8,103	\$ 28,027	\$ 17,960

6. Other Assets

Other assets consist of:

	December 31, 2005	December 31, 2004
Above-market rents of leases acquired through rental property acquisitions net of amortization of \$1,404 (December 31, 2004 - \$385)	\$5,881	\$4,190
Accounts receivable	4,435	2,116
Prepaid expenses	163	377
Escrow accounts held by mortgagees	2,746	2,340
Computer and office equipment, net of amortization of \$15	79	-
Leasehold improvements, net of amortization of \$1	37	-
	\$ 13,341	\$9,023

7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the related mortgages and other security agreements. Interest rates on the mortgages payable are between 4.94% and 8.10 % with a weighted average rate of 6.03% (December 31, 2004 – 6.53%).

Mortgages payable at December 31, 2005 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2006	\$ 5,309	\$ -	\$ 5,309
Year ended December 31, 2007	5,449	19,408	24,857
Year ended December 31, 2008	4,735	14,404	19,139
Year ended December 31, 2009	4,779	8,735	13,514
Year ended December 31, 2010	4,991	1,926	6,917
Thereafter	22,461	105,851	128,312
	\$47,724	\$ 150,324	\$ 198,048
Premium on assumed mortgages (net of amortization of \$632)			828
			\$ 198,876

The REIT has a \$5,000 revolving credit facility with a Canadian chartered bank, which matures February 28, 2007 and bears interest at bank prime rate plus 1.0%, which is secured by second and third mortgage charges on three rental properties.

The REIT has a \$25,000 revolving credit facility with another Canadian chartered bank, which matures May 31, 2006 and bears interest at bank prime rate plus 1.0%. Security for the facility consists of first and second mortgage charges on seven rental properties and security agreements covering assignment of rents and personal property with respect to the six properties.

At December 31, 2005 the amount outstanding under the credit facilities was \$12,045, net of cash of \$1,808 (December 31, 2004 \$10,971, net of cash of \$1,302).

8. Accounts Payable and Other Liabilities

Accounts payables and other liabilities consist of:

	December 31, 2005	December 31, 2004
General operating payables and tenant deposits	\$ 11,233	\$ 9,629
Below market rents of leases acquired through rental property acquisition – net of amortization of \$1,193 (2004 - \$402)	3,057	1,972
Accrued interest	916	750
Capital lease obligations	52	-
	\$15,258	\$12,351

9. Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units, each of which represents a unitholder's proportionate undivided beneficial interest in the REIT. No unitholder has or is deemed to have any right of ownership in any of the assets of the REIT.

On January 4, 2005, the REIT issued 1.9 million voting units at \$13.00 per unit pursuant to a public offering, resulting in gross proceeds of \$24,700. On April 18, 2005, the REIT issued 2.15 million voting units at \$14.00 per unit pursuant to a public offering, resulting in gross proceeds of \$30,100. On

November 1, 2005, the REIT completed an issuance of 1.3 million voting units at \$15.50 per unit pursuant to a public offering, resulting in gross proceeds of \$20,150.

The number of units issued and outstanding is as follows:

	Units
Units outstanding, December 31, 2004	10,386,060
Units issued pursuant to Unit Option Plan (Note 11)	123,000
Units issued under the Distribution Reinvestment Plan	83,649
Units issued pursuant to the Offerings	5,350,000
Units issued pursuant to the Long Term Incentive Plan (Note 12)	76,224
Units outstanding, December 31, 2005	16,018,933

10. Weighted Average Units

The weighted average units outstanding of the purposes for calculating net earnings per unit are as follows:

	Year Ended December 31, 2005	Year Ended December 31, 2004
Basic	14,004,054	8,996,471
Unit option plan	38,144	47,765
Long-term incentive plan	207,226	56,927
Fully diluted	14,249,424	9,101,163

11. Unit Option Plan

The REIT adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to the trustees and the officers of the REIT. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the units on the day preceding the date of grant. The options may have a maximum term of ten years from the date of grant. The maximum number of Units reserved for issuance pursuant to the Unit Option Plan is 345,000 units.

On February 20, 2003, 345,000 options were granted to trustees and officers with an exercise price of \$10.00 and expiring on February 19, 2008. 115,000 options vested on each of February 20, 2003, February 20, 2004 and February 20, 2005.

A summary of the status of the Unit Option Plan is as follows:

Options	Units	Weighted Average Exercise Price
Granted and outstanding as at December 31, 2004	204,500	\$10.00
Exercised between January 1 and June 30, 2005	123,000	\$10.00
Exercised between July 1 and December 31, 2005	-	\$10.00
Granted and outstanding as at December 31, 2005	81,500	\$10.00
Options exercisable as at December 31, 2005	81,500	\$10.00

12. Long-Term Incentive Plan

Officers and trustees of the REIT have been granted the right to participate in a LTIP, whereby the participants may subscribe for units for a purchase price equal to the weighted average trading price of the units for five trading days preceding the date of the grant. The purchase price is payable (“installment loan receivable”), over a term not exceeding 10 years, bears 3% interest on any outstanding balance and has full recourse to the participant. The units issued under the LTIP are held by a custodian for the benefit of the Participants, until the purchase price has been paid in full. Cash distributions paid in respect of the units issued under the LTIP are applied to the installment loan receivable.

An aggregate of 259,390 units are reserved for issuance, pursuant to the LTIP and, during the year ended December 31, 2005, 76,224 Units were issued at a purchase price of \$13.46 per unit.

The fair value of the LTIP is the estimated present value of the 1.5% imputed interest benefit and an assumed market rate of return of 4.5%, over an estimated expected term of ten years. For the year ended December 31, 2005, compensation cost of \$109, attributable to the LTIP, was charged against earnings with a corresponding amount included in unitholders’ equity as units issued. The LTIP installment loans receivable are recognized as deductions from units issued. Distributions received under the LTIP are charged to unitholders’ equity while interest received under the LTIP is credited to distributions.

Units issued under the LTIP	Cumulative as at December 31, 2005	Year December 31, 2005	Year Ended December 31, 2004
Number of units issued	223,724	76,224	147,500
Units issued	\$2,763	\$1,026	\$ 1,737
Compensation cost	198	109	89
	2,961	1,135	1,826
LTIP installment loans receivable	(2,624)	(974)	(1,650)
Interest on installment loan receivable	(91)	(73)	(18)
Distributions applied against installment loan receivable	303	240	63
	\$ 548	\$ 327	\$221

13. Income Taxes

The REIT is taxed as a “Mutual Fund Trust” for income tax purposes. The REIT is required by its Declaration of Trust to distribute or designate all of its taxable income to unitholders and to deduct such distributions or designation for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to distributions of the REIT are the obligations of the unitholders.

14. Financial Instruments

The fair value of the REIT’s financial assets and liabilities with current maturities approximate their recorded values as at December 31, 2005. The fair value of the mortgages payable is \$201,890 (2004 - \$148,033)

In the normal course of its business, the REIT is exposed to a number of financial risks that can affect its operating performance. These risks and the actions taken to manage them are noted below. The REIT does not have foreign exchange risks as it holds only Canadian dollar denominated assets and liabilities.

(a) Interest Rate Risk

All of the REIT's mortgages payable at December 31, 2005 are at fixed interest rates and are not exposed to changes in interest rates. Bank indebtedness is at floating rate interest rates and is exposed to changes in interest rates. As fixed rate debt matures and as the REIT utilizes additional floating rate debt under the revolving credit facilities, the REIT will be further exposed to changes in interest rates. As part of its risk management program, The REIT endeavors to maintain an appropriate mix of fixed rate and floating rate debt and to stagger the maturities of its debt.

(b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT's credit risk is limited to the recorded amount of tenant receivables.

The REIT does not acquire, hold or issue derivative financial instruments for hedging or trading purposes.

15. Segmented Disclosure

Substantially all of the REIT's assets are in, and its revenue is derived from, the downtown Toronto office market.

16. Commitments and Contingencies

The REIT has entered into commitments for acquisitions, building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at December 31, 2005 and December 31, 2004 were \$1,161 and \$406, respectively.

17. Related Party Transactions

(a) Property Management Agreement

Prior to July 1, 2005 the REIT was bound by the Property Management Agreement the REIT had entered into with Allied Canadian Corporation ("Property Manager"). The Property Manager was appointed as the property manager for the rental properties owned by the REIT. The Property Manager is a company controlled by the President and CEO of the REIT. The Executive Vice President of the REIT owns a significant interest in the Property Manager. For its services as property manager, it was paid an annual fee equal to 4% of the gross revenues, was entitled to recover the cost incurred by it in substituting on-site managers at rental properties, the costs of its maintenance staff to perform regular maintenance at the rental properties and its out-of pocket expenses related to services provided. Amounts paid and included in rental operating cost during the years ended December 31, 2005 and December 31, 2004 were \$1,571 and \$2,200 respectively.

Pursuant to the Property Management Agreement, the Property Manager was entitled to a leasing fee. The fee was payable upon tenants having executed and delivered signed leases. Amounts paid and included in deferred expenses during the years ended December 31, 2005 and December 31, 2004 were \$72 and \$256 respectively.

Pursuant to the Property Management Agreement, the Property Manager was entitled to a project management fee based on customary market fees for project management services in connection with renovations, construction and reconstruction work on the rental properties. Amounts paid and included in rental properties during the years ended December 31, 2005 and December 31, 2004 were \$10 and \$89 respectively.

Pursuant to the Property Management Agreement, the Property Manager provided the REIT a fully equipped office and support staff and was entitled to recover its cost from the REIT. Amounts paid and

included in trust expenses during the years ended December 31, 2005 and December 31, 2004 were \$38 and \$65 respectively.

Included in accounts payable and other liabilities is an amount of \$31 (December 31, 2004 - \$26) related to the above noted services. Included in commitments and contingencies is an amount of \$45 (December 31, 2004 – \$11) related to the above noted services

These transactions are in the normal course of operations and were measured at the exchange amount agreed upon by the parties.

(b) Real Estate Services

As a result of the acquisition of the property management business on July 1, 2005 as disclosed in Note 2 (b), the REIT engages in third party property management services, including services provided for properties in which certain trustees of the REIT have an ownership interest. For the year ended December 31, 2005 real estate service revenue earned from these properties was \$205, which was fully paid in the period. These transactions are in the normal course of operations and were measured at the exchange amount set out in agreement between the respective property owners and the Property Manager, prior to the REIT acquiring the business. The REIT assumed the terms of these agreements.

(c) Rental Revenues

Rental revenues included amounts received from related parties for the Year Ended December 31, 2005:

Related Party	Nature of Revenue	Year Ended December 31, 2005	Year Ended December 31, 2004
Vendors of properties	Head Lease	\$ 165	\$257
Property Manager	Lease	151	-
Techspace Canada Inc.	Guarantee	61	162
Techspace Canada Inc.	Lease	178	-
Vendors of properties	Bridge Covenants	360	59
		\$915	\$ 478

Head Lease:

Certain vendors entered into a lease dated February 20, 2003 for 16,686 square feet of office space for a five year term, expiring on February 19, 2008, (the “Head Lease”). The Head Lease has been amended such that the term with respect to 2,747 square feet expired on May 31, 2004 and the term with respect to 5,596 square feet expired on July 31, 2004. The REIT has entered into lease agreements with new tenants for the 2,747 square feet and the 5,596 square feet for terms, which expire subsequent to February 20, 2008. The obligations of the vendors under the Head Lease are secured by cash of \$539, which is held in an escrow account by the Property Manager. These vendors are under common control of certain trustees of the REIT.

Guarantee and Lease:

TechSpace Canada Inc. (“TechSpace”), a subsidiary of the Property Manager, leased 29,102 square feet of office space from the REIT on commercial terms. The lease was to expire on September 30, 2010. The Property Manager indemnified the REIT in respect of all of TechSpace’s obligations under the lease. The REIT entered into a lease directly with a new tenant effective January 1, 2004 for the 29,102 square feet. The indemnity from the Property Manager remains in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease. This lease was terminated on April 30, 2005 and a new lease has been entered into with a current tenant of the REIT for a term of July 1, 2005 to April 30, 2008. The indemnity remains in effect to September 30, 2010.

Bridge Covenants:

Certain vendors of the rental properties provided bridge covenants (collectively the "Bridge Covenants") to the REIT in respect of certain office space leased to third party, non related tenants. These Bridge Covenants provide the REIT with an income stream to coincide with rent-free periods that the vendors provided to the tenants, prior to the REIT acquiring the rental properties. These vendors are under common control of certain trustees of the REIT.

(d) Rental Property Acquisitions

Effective January 1, 2005 and July 1, 2005 the REIT acquired from certain vendors that are under common control of certain Trustees of the REIT, 469 King Street West and 602 King Street West for purchase prices of \$16.0 million and \$11.27 million respectively. The purchase prices net of standard adjustments were paid in cash and the REIT assumed a first mortgage loan of \$5.06 million with respect to 469 King Street West. The purchase price was determined by an independent appraisal.

18. Subsequent Events

On January 20, 2006, the REIT placed a first mortgage on 208-210 Adelaide Street West, Toronto, 200 Adelaide Street West, Toronto and 116 Simcoe Street, Toronto, in the principal amount of \$9 million for a term of 10 years at an annual interest rate of 5.16%.

On January 20, 2006, the REIT placed a first mortgage on 579 Richmond Street West, Toronto, and 141 Bathurst Street, Toronto, in the principal amount of \$6.5 million for a term of 10 years at an annual interest rate of 5.16%.

On February 2, 2006, the REIT announced an agreement to acquire 4436-4450 Saint-Laurent Boulevard, a Class I office property located in downtown Montreal, and 5,500 square feet of adjacent land that forms the southwest corner of Saint-Laurent and Boulevard Mount-Royal for an aggregate purchase price of \$11.2 million. The acquisition is scheduled to close on or about March 31, 2006.