

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**Financial Statements**

**Year Ended December 31, 2004**

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## Auditors' Report

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

We have audited the balance sheets of Allied Properties Real Estate Investment Trust as at December 31, 2004 and 2003 and the statements of earnings, unitholders' equity and cash flows for the year and period respectively 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 financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the year and period respectively then ended in accordance with Canadian generally accepted accounting principles.

(signed) BDO Dunwoody LLP

Chartered Accountants

Toronto, Ontario  
February 2, 2005

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

(in thousands)

	<b>December 31, 2004</b>	December 31, 2003
<b>ASSETS</b>		
Rental properties (Note 4)	\$ 239,852	\$ 153,744
Deferred expenses (Note 5)	17,960	1,749
Other assets (Note 6)	9,023	1,271
Cash	-	305
	<b>\$ 266,835</b>	<b>\$ 157,069</b>
<b>LIABILITIES</b>		
Mortgages payable (Note 7)	\$ 144,350	\$ 82,096
Bank indebtedness (Note 7)	10,971	-
Accounts payable and other liabilities (Note 8)	12,351	6,387
Distributions payable	987	653
	<b>168,659</b>	<b>89,136</b>
<b>UNITHOLDERS' EQUITY</b> (Note 9)	<b>98,176</b>	<b>67,933</b>
	<b>\$ 266,835</b>	<b>\$ 157,069</b>

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  
STATEMENT OF UNITHOLDERS' EQUITY**

(in thousands)

	Cumulative Capital	Cumulative Issue Costs	Cumulative Net Income	Cumulative Distributions	Total
From February 19, 2003 to December 31, 2003					
Net earnings	-	-	6,434	-	6,434
Distributions	-	-	-	(5,868)	(5,868)
Initial public offering	50,000	(4,407)	-	-	45,593
Private placements	21,601	(455)	-	-	21,146
Distribution reinvestment plan	628	-	-	-	628
<b>Unitholders' equity, December 31, 2003</b>	<b>72,229</b>	<b>(4,862)</b>	<b>6,434</b>	<b>(5,868)</b>	<b>67,933</b>
Year Ended December 31, 2004					
Net earnings	-	-	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 (Note 12)	221	(25)	-	-	196
<b>Unitholders' equity, December 31, 2004</b>	<b>\$ 106,977</b>	<b>\$ (6,728)</b>	<b>\$ 14,301</b>	<b>\$ (16,374)</b>	<b>\$ 98,176</b>

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

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

(in thousands, except per unit and unit amounts)	Year Ended December 31, 2004	From February 19, 2003 to December 31, 2003
Rental revenue	\$ 34,565	\$ 17,945
Operating costs	12,028	5,803
Amortization of rental properties	4,209	789
Amortization of deferred expenses	1,899	51
	<b>18,136</b>	<b>6,643</b>
Operating income from rental properties	16,429	11,302
Financing expense	6,997	3,811
Trust expenses	1,565	1,057
Net earnings	\$ 7,867	\$ 6,434
Net earnings per unit		
Basic	\$ 0.874	\$ 1.046
Fully diluted	\$ 0.864	\$ 1.045
Weighted average number of units		
Basic	8,996,471	6,153,384
Fully diluted	9,101,163	6,155,538

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

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

(in thousands)	Year Ended December 31, 2004	From February 19, 2003 to December 31, 2003
<b>CASH PROVIDED BY (USED IN):</b>		
<b>Operating activities</b>		
Net earnings	\$ 7,867	\$ 6,434
Items not affecting cash		
Amortization, rental properties	4,209	789
Amortization, deferred expenses	1,899	51
Step rent adjustments	(1,325)	-
Mark to market rent adjustments	(18)	-
Amortization, premium on assumed mortgages payable	(444)	(316)
Interest benefit granted under long-term incentive plan	89	-
	<b>12,277</b>	<b>6,958</b>
Change in other non-cash operating items	<b>1,401</b>	<b>43</b>
<b>Cash from operating activities</b>	<b>13,678</b>	<b>7,001</b>
<b>Investing activities</b>		
Net assets acquired (Note 2)	(97,553)	(54,974)
Capital expenditures, rental properties	(1,978)	(270)
Deferred leasing costs	(2,518)	(481)
<b>Cash used in investing activities</b>	<b>(102,049)</b>	<b>(55,725)</b>
<b>Financing activities</b>		
Repayment of mortgages payable	(6,201)	(1,383)
Proceeds from new mortgages payable	61,474	-
Deferred financing costs	(887)	(173)
Distributions	(9,240)	(4,588)
Proceeds of public offering (net of issue costs)	30,349	45,593
Proceeds of private placement (net of issue costs)	-	9,580
Proceeds from exercise of unit options	1,405	-
Proceeds from units issued under the LTIP (net of issue costs)	195	-
Net increase in short-term revolving debt (Note 7)	12,273	-
<b>Cash provided by financing activities</b>	<b>89,368</b>	<b>49,029</b>
<b>Increase in cash and cash equivalents</b>	<b>997</b>	<b>305</b>
<b>Cash and cash equivalents, beginning of period (Note 7)</b>	<b>305</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,302</b>	<b>\$ 305</b>
<b>Other cash flow information</b>		
Interest paid	\$ 7,111	\$ 3,702
<b>Supplemental disclosure of non-cash activities</b>		
Units issued pursuant to the distribution reinvestment plan	\$ 932	\$ 628

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
(In thousands of dollars except per unit and unit amounts)  
**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, 2004 and the results of operations and cash flow for the year ended December 31, 2004. The comparative amounts presented in the statements of earnings, unitholders' equity and cash flow are for the period from February 19, 2003 to December 31, 2003.

**2. Acquisitions**

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

	<b>Year Ended December 31, 2004</b>	Period From February 19, 2003 to December 31, 2003
Rental properties	<b>\$ 86,264</b>	\$ 152,480
Acquisition costs, including land transfer taxes	<b>2,075</b>	1,783
Other assets	<b>553</b>	1,045
Fair value of in-place leases	<b>8,398</b>	1,146
Fair value of above-market leases	<b>4,463</b>	-
Fair value of below-market leases	<b>(1,379)</b>	(883)
Fair value of tenant relationships	<b>6,307</b>	-
Mortgages payable	<b>(7,425)</b>	(83,795)
Accounts payable and accrued liabilities	<b>(1,703)</b>	(5,235)
<b>Consideration paid for the net assets acquired</b>	<b>\$ 97,553</b>	<b>\$ 66,541</b>

Consideration paid for the net assets acquired consisted of the following:

Cash	<b>\$ 97,553</b>	\$54,974
Units issued to vendors	<b>-</b>	11,567
	<b>\$ 97,553</b>	<b>\$66,541</b>

### **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 and are also in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which the REIT is a member.

#### **(b) 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.

#### **(c) 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.

#### **(d) 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.

Effective January 1, 2004, amortization on buildings is recorded on the straight-line basis over the useful life of the buildings, estimated at 40 years. The REIT adopted prospective application of this policy as a result of the application of CICA Section 1100. Prior to January 1, 2004, amortization on buildings was recorded on the sinking fund method to fully amortize the cost of the buildings over 40 years. The impact of this change in accounting policy was an increase to amortization on buildings of \$2,782 for the year ended December 31, 2004.

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. The REIT adopted prospective application of this policy with respect to acquisitions of rental properties that were initiated after September 12, 2003 in accordance with the guidance in CICA EIC 137 and EIC 140.

#### **(e) 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.

**(f) Revenue Recognition**

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. Effective January 1, 2004, rental revenue with respect to rents from tenants under leases is recognized ratably over the term of the lease. The REIT adopted prospective application of this policy as a result of the application of CICA Section 1100. Prior to January 1, 2004, rental revenue with respect to rents from tenants under leases was recognized based on contractual rents for the period. The impact of this change in accounting policy was an increase in rental revenue of \$1,378 for the year ended December 31, 2004.

**(g) Unit-based Compensation Plan**

Effective January 1, 2004, pursuant to amendments made to Handbook section 3870, the REIT commenced accounting 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. The amended recommendations were adopted on a retroactive basis, and the impact to earnings was not material.

**(h) Per Unit Calculations**

Basic earnings per unit is calculated by dividing net earnings by the weighted average number of units outstanding for the period, excluding those units issued under the Long Term Incentive Plan. 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.

**4. Rental Properties**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount December 31, 2004</b>	<b>Net Carrying Amount December 31, 2003</b>
Land	\$ 37,245	\$ -	\$ 37,245	\$ 24,187
Building, improvements and other costs	207,605	(4,998)	202,607	129,557
	<b>\$ 244,850</b>	<b>\$ (4,998)</b>	<b>\$ 239,852</b>	<b>\$ 153,744</b>

**5. Deferred Expenses**

Deferred expenses consist of costs incurred by the REIT, net of amortization of \$1,950 (2003 - \$51), with respect to obtaining debt financing, leasing costs incurred, the fair value attributed to in-place leases acquired and the fair value attributed to customer relationships with respect to rental property acquisitions. 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.

**6. Other Assets**

Other assets of \$9,023 (2003 - \$1,271) consist of above-market rents of leases acquired through rental property acquisitions of \$4,190 (2003 - \$nil), accounts receivable of \$2,116 (2003 - \$190), prepaid expenses of \$377 (2003 - \$38), cash deposits on account for a property pending property acquisition \$ nil (2003 - \$70) and escrow accounts held by mortgagees of \$2,340 (2003 - \$973).

## 7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the mortgages and other security agreements. Interest rates on the mortgages payable are between 5.20% and 8.10 % with a weighted average of 6.53% (December 31, 2003 - 7.09%).

Mortgages payable at December 31, 2004 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Year ended December 31, 2005	\$ 3,587	\$ 1,850	\$ 5,437
Year ended December 31, 2006	3,598	9,930	13,528
Year ended December 31, 2007	3,475	19,404	22,879
Year ended December 31, 2008	2,662	14,404	17,066
Year ended December 31, 2009	2,584	8,735	11,319
Thereafter	13,006	60,067	73,073
	\$ 28,912	\$ 114,390	\$ 143,302
Premium on assumed mortgages (net of amortization)			1,048
			\$ 144,350

The REIT has a \$5,000 revolving credit facility with a Canadian chartered bank, which matures February 28, 2006 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 \$15,000 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 five rental properties and security agreements covering assignment of rents and personal property with respect to the six properties.

At December 31, 2004 the amount outstanding under the two credit facilities was \$12,273, which was fully repaid on January 4, 2005 with proceeds from the Public Offering described in Note 18, Subsequent Events. Bank indebtedness of \$10,971 includes amounts outstanding under the credit facilities net of cash of \$1,302.

## 8. Accounts Payable and Other Liabilities

Accounts payables and other liabilities consist of:

	December 31, 2004	December 31, 2003
General operating payables and tenant deposits	\$ 9,629	\$ 5,025
Below market rents of leases acquired through rental property acquisition (net of above market rents)	1,972	883
Accrued interest on mortgages payable	750	425
Deferred revenue	-	54
	\$12,351	\$ 6,387

## 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 May 27, 2004, the REIT issued 2.9 million voting units at \$11.10 per unit pursuant to a public offering (the "Offering"), resulting in gross proceeds of \$32,190. Costs relating to the Offering, including underwriters' fees, were \$1,841.

The number of units issued and outstanding is as follows:

	<b>Units</b>
Units outstanding, December 31, 2003	<b>7,120,279</b>
Units issued pursuant to Unit Option Plan (Note 11)	<b>140,500</b>
Units issued under the Dividend Reinvestment Plan	<b>77,781</b>
Units issued pursuant to the Offering	<b>2,900,000</b>
Units issued pursuant to the Long Term Incentive Plan (Note 12)	<b>147,500</b>
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Units outstanding, December 31, 2004	<b>10,386,060</b>

## 10. Net Earnings Per Unit

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

	<b>Year Ended December 31, 2004</b>	Period From February 19, 2003 to December 31, 2003
<b>Basic</b>	<b>8,996,471</b>	6,153,384
<b>Dilutive – unit option plan</b>	<b>47,765</b>	2,154
<b>Dilutive – long-term incentive plan</b>	<b>56,927</b>	-
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<b>Fully dilutive</b>	<b>9,101,163</b>	6,155,538

## 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 and February 20, 2004 and 115,000 options vest on February 20, 2005.

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

Options	Units	Weighted Average Exercise Price
Outstanding as at December 31, 2003	345,000	\$10.00
Exercised during the period ended December 31, 2004	140,500	\$10.00
Granted and outstanding as at December 31, 2004	204,500	\$10.00
Options exercisable as at December 31, 2004	89,500	\$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, 2004 147,500 Units were issued at a average purchase price of \$11.78 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 five years. For the year ended December 31, 2004, compensation cost of \$89, 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.

	Year Ended December 31, 2004
147,500 units issued under the LTIP	\$ 1,737
Compensation cost	89
	<b>1,826</b>
LTIP installment loans receivable	(1,650)
Interest on installment loan receivable	(18)
Distributions applied against installment loan receivable	63
	<b>\$221</b>

The REIT incurred costs of \$25 in connection with the LTIP which is included in unit issue costs.

### **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, 2004. The fair value of the mortgages payable is \$147,611 (2003 - \$83,735)

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, 2004 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 building renovations, leasing commissions and tenant inducements with respect to leasing activities and for repairs and operating costs. The commitments as at December 31, 2004 were \$406.

### **17. Related Party Transactions**

#### **(a) Property Management Agreement**

Pursuant to the Property Management Agreement entered into by the REIT, Allied Canadian Corporation ("Allied Properties") has been appointed as the property manager for the rental properties owned by the REIT. Allied Properties is a company controlled by the President and CEO of the REIT. The Executive Vice President of the REIT owns a significant interest in Allied Properties. For its services as property manager, it is paid an annual fee equal to 4% of the gross revenues, is 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 year ended December 31, 2004 and the period from February 19, 2003 to December 31, 2003 were \$2,200 and \$1,165 respectively.

Pursuant to the Property Management Agreement, Allied Properties is entitled to a leasing fee. The fee is payable upon tenants having executed and delivered signed leases. Amounts paid and included in deferred expenses during the year ended December 31, 2004 and the period from February 19, 2003 to December 31, 2003 were \$256 and \$34, respectively.

Pursuant to the Property Management Agreement, Allied Properties is 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 year ended December 31, 2004 and the period from February 19, 2003 to December 31, 2003 were \$89 and \$11, respectively.

Pursuant to the Property Management Agreement, Allied Properties is to provide the REIT a fully equipped office and support staff and is entitled to recover its cost from the REIT. Amounts paid and included in trust expenses during the year ended December 31, 2004 and the period from February 19, 2003 to December 31, 2003 were \$65 and \$52, respectively.

Included in accounts payable and other liabilities is an amount of \$26 (2003 - \$6) related to the above noted services. Included in commitments and contingencies is an amount of \$11 (2003 - \$80) 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) Rental Revenues**

Rental revenues included amounts received from related parties for the period ended December 31, 2004:

Related Party	Nature of Revenue	Year Ended December 31, 2004	Period From February 19, 2003 to December 31, 2003
Vendors of properties	Head Lease	\$ 257	\$ 284
Techspace Canada Inc.	Guarantee	162	-
Techspace Canada Inc.	Lease	-	643
Vendors of properties	Bridge Covenants	59	602
		<b>\$ 478</b>	<b>\$ 1,529</b>

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 \$667, which is held in an escrow account by Allied Properties. 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 indemnity and the option expire six months after TechSpace's operations have stabilized. The REIT has 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.

#### 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.

### **18. Subsequent Events**

On January 4, 2005, the REIT issued 1.9 million voting units at \$13.00 per unit pursuant to a public offering (the "Offering"), resulting in gross proceeds of \$24,700. Costs relating to the Offering, including underwriters' fees, were \$1,265.

On January 4, 2005, the REIT acquired 469 King Street West, a rental property in Toronto, Ontario for \$16,000. The acquisition was financed with an assumed first mortgage of \$5,060, due July 1, 2015, bearing interest at 6.132%, the assumption of certain liabilities and the balance with cash.