

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**

**Consolidated Financial Statements**

**For the Period Ended June 30, 2007**

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

(in thousands)	Note	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
<b>ASSETS</b>			
Rental properties	4	\$ 660,128	\$ 426,442
Properties under development		11,815	17,074
Deferred expenses	5	54,885	34,736
Other assets	6	43,364	20,852
Cash		1,161	3,405
		<b>\$ 771,353</b>	<b>\$ 502,509</b>
<b>LIABILITIES</b>			
Mortgages payable	7	\$ 424,720	\$ 264,286
Bank indebtedness	7	16,734	-
Accounts payable and other liabilities	8	23,506	20,473
Distributions payable		2,636	2,046
		<b>467,496</b>	<b>286,805</b>
<b>UNITHOLDERS' EQUITY</b>	<b>9</b>	<b>303,757</b>	<b>215,704</b>
		<b>\$ 771,353</b>	<b>\$ 502,509</b>

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

\_\_\_\_\_  
"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 and Comprehensive Income	Cumulative Distributions	Total (Unaudited)
Unitholders' equity, December 31, 2005		\$184,708	\$(10,482)	\$ 15,693	\$ (33,135)	\$ 156,784
Year Ended December 31, 2006						
Net income		-	-	7,717	-	7,717
Distributions		-	-	-	(20,457)	(20,457)
Public offering		73,300	(3,481)	-	-	69,819
Distribution reinvestment plan		856	-	-	-	856
Unit option plan - options exercised	11	260	-	-	-	260
Long-Term incentive plan	12	742	(17)	-	-	725
Unitholders' equity, December 31, 2006		\$ 259,866	\$ (13,980)	\$ 23,410	\$ (53,592)	\$ 215,704
<b>Six Months Ended June 30, 2007</b>						
<b>Net income and comprehensive income</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,155</b>	<b>\$ -</b>	<b>\$ 4,155</b>
<b>Distributions</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(14,031)</b>	<b>(14,031)</b>
<b>Public offering</b>		<b>100,119</b>	<b>(4,578)</b>	<b>-</b>	<b>-</b>	<b>95,541</b>
<b>Distribution reinvestment plan</b>		<b>1,904</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,904</b>
<b>Unit option plan - options exercised</b>	<b>11</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130</b>
<b>Long-Term incentive plan</b>	<b>12</b>	<b>356</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>354</b>
<b>Unitholders' equity, June 30, 2007</b>		<b>\$ 362,375</b>	<b>\$ (18,560)</b>	<b>\$ 27,565</b>	<b>\$ (67,623)</b>	<b>\$ 303,757</b>

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

**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST  
CONSOLIDATED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME**

(in thousands, except unit and per unit amounts)

	<b>Three Months Ended June 30, 2007 (Unaudited)</b>	Three Months Ended June 30, 2006 (Unaudited)	<b>Six Months Ended June 30, 2007 (Unaudited)</b>	Six Months Ended June 30, 2006 (Unaudited)
<b>Revenues</b>				
Rental properties	<b>\$ 27,424</b>	\$ 15,467	<b>\$ 47,970</b>	\$ 30,410
Real estate services	<b>275</b>	245	<b>541</b>	469
	<b>27,699</b>	15,712	<b>48,511</b>	30,879
<b>Expenses</b>				
Rental property operating	<b>10,831</b>	5,385	<b>18,830</b>	10,928
Real estate services	<b>138</b>	142	<b>317</b>	256
Financing	<b>5,914</b>	3,188	<b>9,640</b>	6,169
Trust	<b>587</b>	767	<b>1,277</b>	1,285
Amortization of rental properties	<b>3,280</b>	1,837	<b>5,591</b>	3,613
Amortization of deferred expenses	<b>5,101</b>	2,036	<b>8,211</b>	4,111
Amortization of other assets	<b>234</b>	174	<b>490</b>	310
	<b>26,085</b>	13,529	<b>44,356</b>	26,672
<b>Net income and comprehensive income for the period</b>	<b>\$ 1,614</b>	\$ 2,183	<b>\$ 4,155</b>	\$ 4,207
<b>Net income per unit</b>				
Basic	<b>\$ 0.067</b>	\$ 0.138	<b>\$ 0.189</b>	\$ 0.266
Fully diluted	<b>\$ 0.066</b>	\$ 0.135	<b>\$ 0.186</b>	\$ 0.261
Weighted average number of units (Note 10)				
Basic	<b>24,087,495</b>	15,848,429	<b>21,952,243</b>	15,828,813
Fully diluted	<b>24,516,617</b>	16,166,214	<b>22,358,278</b>	16,115,520

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

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

(in thousands)	Notes	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
<b>CASH PROVIDED BY (USED IN):</b>					
<b>Operating activities</b>					
Net income and comprehensive income		\$ 1,614	\$ 2,183	\$ 4,155	\$ 4,207
Items not affecting cash					
Amortization of rental properties		3,280	1,837	5,591	3,613
Amortization of office equipment		13	8	23	16
Amortization of deferred expenses		5,109	2,047	8,219	4,122
Amortization of tenant improvements		226	166	468	294
Step rent adjustments (revenue)		(510)	(209)	(660)	(564)
Step rent adjustments (expenses)		45	-	70	-
Mark to market rent adjustments		907	68	930	156
Amortization, premium on assumed mortgages		(92)	(54)	(184)	(96)
Changes in other non-cash financing expenses		110	-	187	-
Interest benefit granted under long-term incentive plan		-	270	6	270
		<b>10,702</b>	6,316	<b>18,805</b>	12,018
Change in other non-cash operating items		<b>(2,103)</b>	280	<b>(22,539)</b>	(336)
<b>Cash from operating activities</b>		<b>8,599</b>	6,596	<b>(3,734)</b>	11,682
<b>Investing activities</b>					
Rental properties acquired, net of non-cash consideration	2 (a)	(95,911)	(10,752)	(111,082)	(10,752)
Properties under development acquired	2 (a)	-	(6,640)	-	(6,640)
Capital expenditures, rental properties and other assets		(1,844)	(495)	(3,136)	(891)
Capital expenditures, properties under development		(368)	(315)	(645)	(403)
Deferred recoverable expenses		-	-	-	-
Tenant improvements and leasing cost		(1,175)	(1,667)	(1,617)	(2,179)
Recoverable expenses		-	-	(116)	-
<b>Cash used in investing activities</b>		<b>(99,298)</b>	(19,869)	<b>(116,596)</b>	(20,865)

**Financing Activities**

Repayment of mortgages payable		<b>(9,949)</b>	(16,719)	<b>(11,688)</b>	(18,041)
Proceeds from new mortgages payable		<b>20,838</b>	23,300	<b>28,558</b>	38,800
Deferred financing costs		-	(192)	-	(312)
Distributions		<b>(6,142)</b>	(4,674)	<b>(11,537)</b>	(9,181)
Proceeds of public offering (net of issue costs)		<b>95,541</b>	-	<b>95,541</b>	-
Proceeds from exercise of unit options		<b>130</b>	20	<b>130</b>	260
Proceeds from units issued under the LTIP (net of issue costs)	<b>12</b>	<b>228</b>	141	<b>348</b>	304
Net increase (decrease) in bank indebtedness		<b>(9,495)</b>	10,254	<b>16,734</b>	(3,599)
<b>Cash provided by financing activities</b>		<b>91,151</b>	12,130	<b>118,086</b>	8,231
<b>Increase (decrease) in cash and cash equivalents</b>		<b>452</b>	(1,143)	<b>(2,244)</b>	(952)
<b>Cash and cash equivalents, beginning of period</b>		<b>709</b>	1,999	<b>3,405</b>	1,808
<b>Cash and cash equivalents, end of period</b>		<b>\$ 1,161</b>	\$ 856	<b>\$ 1,161</b>	\$ 856

**Other cash flow information**

Interest paid		<b>\$ 2,700</b>	\$ 3,289	<b>\$ 6,648</b>	\$ 6,198
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**Supplemental disclosure of non-cash activities**

Units issued pursuant to the distribution reinvestment plan		<b>\$ 1,194</b>	\$ 202	<b>\$ 1,904</b>	\$ 406
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**ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST**  
**CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
(In thousands of dollars except per unit and unit amounts)  
**June 30, 2007 and June 30, 2006**  
**(Unaudited)**

**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 consolidated financial statements present the financial position of the REIT as at June 30, 2007 and the results of operations and cash flows for the three and six month periods ended June 30, 2007.

**2. Acquisitions**

**(a) Rental Properties and Properties Under Development**

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

	Six Month Period Ended June 30, 2007 (Unaudited)	Three Month Period Ended June 30, 2007 (Unaudited)	Year Ended December 31, 2006 (Audited)
Rental properties	\$ 230,539	\$ 214,705	\$ 91,779
Properties under development	-	-	10,986
Other assets	2,709	2,693	561
Fair value of in-place leases and tenant relationships	28,492	26,747	15,363
Fair value of above-market leases	14,753	14,596	1,708
Fair value of below-market leases	(1,435)	(358)	(1,360)
Mortgages payable	(145,200)	(145,200)	(18,991)
Accounts payable and accrued liabilities	(18,776)	(17,272)	(1,764)
Cash consideration paid for the net assets acquired	\$ 111,082	\$ 95,911	\$ 98,282

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

**3. Summary of Significant Accounting Policies**

**(a) Basis of Presentation**

The REIT's consolidated 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:

<b>Entity</b>	<b>Interest Held on June 30, 2007</b>	<b>Interest Held on December 31, 2006</b>	<b>Accounting Method</b>
Allied Properties Management Limited Partnership	100%	100%	Consolidation
Allied Properties Management Trust	100%	100%	Consolidation
Allied Properties Management GP Limited	100%	100%	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) Properties Under Development**

Properties under development are stated at the lower of cost and net recoverable value. Cost includes the cost of acquisition, other direct cost, realty tax, other operating expense and applicable financing expense during the development period, less the amount of operating revenue during the development period. The principal factors in determining when the redevelopment-period ends are (i) the achievement of positive cash flow after applicable interest expense and (ii) the passage of a predetermined period of time. Other criteria may be considered in determining when a redevelopment-period ends if warranted by circumstances relating to the relevant property under development.

**(g) Computer and Office Equipment**

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

**(h) 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. Effective June 18, 2007, the REIT temporarily suspended the DRIP.

**(i) 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 ratably over the term of the lease. Real estate services revenue is recorded on an accrual basis as services are provided.

**(j) 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.

**(k) Per Unit Calculations**

Basic net income per unit is calculated by dividing net income 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 net income 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 net income per unit on a diluted basis includes those units issued under the Long Term Incentive Plan, which are not fully paid up.

**(l) 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.

**(m) Leasing Costs and Tenant Improvements**

Leasing costs include costs associated with leasing activities such as commissions. These costs are amortized on a straight-line basis over the terms of the leases to which they relate.

The REIT may provide funding to tenants through allowances. In accounting for a tenant allowance, the REIT determines whether the allowance is for funding the construction of improvements and the ownership of such improvements. In those circumstances where the REIT is considered the owner of the improvements, the REIT capitalizes the amount of the allowance as a tenant improvement and amortizes it over the shorter of the useful life of the improvement and the lease term. If the REIT provides an allowance that does not represent a payment for funding improvements, or in the event the REIT is not considered the owner of the improvement, the allowance would be considered a lease incentive and would be deferred and amortized over the lease term as a reduction of revenue. Determination of the accounting treatment of a tenant allowance is made on a case-by-case basis.

**(n) Comparative Amounts**

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

**(o) Change in Accounting Policies**

Effective January 1, 2007 the REIT adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments – Disclosure and Presentation. These new Handbook sections, which are effective for fiscal years commencing on or after October 1, 2006, set out criteria for the recognition, measurement, disclosure and presentation of financial instruments. These new standards do not require policies followed in prior periods to be revised. Thus, the comparative figures have not been restated.

Section 3855 requires all financial assets and liabilities to be classified into one of the following five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

Held-for-trading financial assets: measured at fair value with subsequent changes in fair value recognized in current period net income;

Held-to-maturity assets, loans and receivables and other financial liabilities: initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

Available-for-sale financial assets: measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets; and

Derivative financial instruments: classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income.

Upon the adoption of these new standards, the REIT designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its bank indebtedness, accounts payables and accruals, distributions payable and long-term debt as other financial liabilities. The REIT had no held-to-maturity or available-for-sale financial assets during the three months ended June 30, 2007.

Comprehensive income represents the changes in unitholders' equity from transactions and other events from non-owner sources. Other comprehensive income refers to items that are recognized in the comprehensive income but excluded from net income calculated in accordance with generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. The REIT had no "other comprehensive income or loss" transactions during the three months ended June 30, 2007 and no opening or closing balances of accumulated other comprehensive income or loss.

The adoption of these new recommendations had the following impact on the REIT's consolidated financial statements:

Deferred financing charges related to the REIT's long term debt, previously carried as deferred expenses, have been netted against the book value of these financial instruments with an adjustment to their effective interest rates payable. This resulted in reductions to deferred expenses of \$1,669 and to mortgages payable of \$1,669. The effect on the adoption on opening unitholders'

equity was insignificant. Financing expense of \$77 related to this change in accounting policy was recorded in the three month period ended March 31, 2007.

#### 4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount June 30, 2007 (Unaudited)	Net Carrying Amount December 31, 2006 (Audited)
Land	\$ 128,323	\$ -	\$ 128,323	\$ 85,754
Building, improvements and other costs	556,093	24,288	531,805	340,688
	<b>\$ 684,416</b>	<b>\$ 24,288</b>	<b>\$ 660,128</b>	<b>\$426,442</b>

#### 5. Deferred Expenses

Deferred expenses consist of costs incurred by the REIT, net of accumulated amortization of \$24,201 (December 31, 2006 - \$16,553), with respect to 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 June 30, 2007 (Unaudited)	Net Carrying Amount December 31, 2006 (Audited)
Leasing costs	\$ 4,651	\$ 958	\$ 3,693	\$ 3,237
Tenant inducements	227	48	179	182
Deferred financing costs	-	-	-	1,641
Amounts ascribed to leasing costs and tenant relationships on rental properties acquired	<b>73,032</b>	<b>22,966</b>	<b>50,066</b>	<b>28,766</b>
Amounts recorded on the acquisition of the property manager – contracts and customer relationships	959	192	767	815
Recoverable expenditures	217	37	180	95
	<b>\$ 79,086</b>	<b>\$ 24,201</b>	<b>\$ 54,885</b>	<b>\$ 34,736</b>

#### 6. Other Assets

Other assets consist of:

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
Above-market rents of leases acquired through rental property acquisitions net of amortization of \$ 4,411 (December 31, 2006 - \$2,712)	\$ 19,346	\$ 6,281
Accounts receivable and deposits for property acquisitions	10,762	7,214
Tenant improvements, net of amortization of \$1,588 (December 31, 2006 - \$1,158 )	4,147	3,880
Prepaid expenses and mortgage commitment fees	5,032	259
Escrow accounts held by mortgagees	3,914	3,101
Computer and office equipment, net of amortization of \$64 (December 31, 2006 - \$43)	131	84
Leasehold improvements, net of amortization of \$14 (December 31, 2006 - \$4)	32	33
	<b>\$ 43,364</b>	<b>\$20,852</b>

## 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 5.60% (December 31, 2006 – 5.96%).

Mortgages payable at June 30, 2007 are due as follows:

	Principal Repayments	Balance due at Maturity	Total (Unaudited)
Period ended December 31, 2007	\$ 5,128	\$ 12,738	\$ 17,866
Year ended December 31, 2008	10,224	6,486	16,710
Year ended December 31, 2009	10,343	14,022	24,365
Year ended December 31, 2010	10,611	4,478	15,089
Year ended December 31, 2011	10,982	8,496	19,478
Thereafter	38,248	294,844	333,092
	<b>\$ 85,536</b>	<b>\$ 341,064</b>	<b>\$ 426,600</b>
Premium on assumed mortgages (net of amortization of \$ 999)			640
Deferred financing costs (net of amortization of \$563)			(2,520)
			<b>\$424,720</b>

The REIT has a \$25,000 revolving credit facility with a Canadian chartered bank, which matures May 31, 2008 and bears interest at bank prime rate plus 1.5%. 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 seven properties.

The REIT has a \$10,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2007 and bears interest at bank prime rate plus 1.0%. Security for the facility consists of first mortgage charges on one rental property and security agreements covering assignment of rents and personal property with respect to the property.

At June 30, 2007 the amount outstanding under the credit facilities was \$ 16,734 (December 31, 2006 \$ nil).

## 8. Accounts Payable and Other Liabilities

Accounts payables and other liabilities consist of:

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)
General operating payables and tenant deposits	\$ 17,360	\$ 15,988
Below market rents of leases acquired through rental property acquisition – net of amortization of \$3,108 (December 31, 2006 - \$2,340)	4,195	3,274
Accrued interest	1,948	1,196
Capital lease obligations	3	15
	<b>\$ 23,506</b>	<b>\$ 20,473</b>

## 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.

The number of units issued and outstanding is as follows:

	<b>Units</b>
Units outstanding, December 31, 2006	<b>20,130,313</b>
Units issued pursuant to offering on April 12, 2007	<b>4,825,000</b>
Units issued pursuant to the Long Term Incentive Plan (Note 12)	<b>51,500</b>
Units issued under the Distribution Reinvestment Plan	<b>89,895</b>
Units issued under the Unit Option Plan	<b>13,000</b>
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Units outstanding, June 30, 2007	<b>25,109,708</b>

## 10. Weighted Average Units

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

	<b>Three Months Period Ended June 30, 2007 (Unaudited)</b>	<b>Three Months Period Ended June 30, 2006 (Unaudited)</b>	<b>Six Months Period Ended June 30, 2007 (Unaudited)</b>	<b>Six Months Period Ended June 30, 2006 (Unaudited)</b>
<b>Basic</b>	<b>24,087,495</b>	15,848,429	<b>21,952,243</b>	15,828,813
<b>Unit option plan</b>	<b>29,796</b>	25,736	<b>29,988</b>	28,797
<b>Long-term incentive plan</b>	<b>399,326</b>	292,049	<b>376,047</b>	257,910
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<b>Fully diluted</b>	<b>24,516,617</b>	16,166,214	<b>22,358,278</b>	16,115,520

## 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.

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:

<b>Options</b>	<b>Units</b>	<b>Weighted Average Exercise Price</b>
Options exercisable as at December 31, 2006	55,500	\$10.00
Exercised between January 1 and June 30, 2007	13,000	\$10.00
<hr/>		
Options outstanding and exercisable as at June 30, 2007	42,500	\$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 as to 5% upon issuance and as to the balance ("installment loan receivable") over a term not exceeding 10 years. The installment loan receivable bears interest on any outstanding balance and is a direct, personal obligation of the participant. The units issued under the LTIP are held by a custodian for the benefit of the participants until the installment loan receivable has been paid in full. Cash distributions paid in respect of the units issued under the LTIP are applied first to the interest and then to reduce the balance of the installment loan receivable.

The fair value of the LTIP is the estimated present value of the imputed interest benefit over an estimated expected term of ten years. 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 June 30, 2007 (Unaudited)	Six Months Period Ended June 30, 2007 (Unaudited)	Cumulative as at December 31, 2006 (Audited)
Number of units issued	412,293	51,500	360,793
Units issued	\$6,282	\$ 1,160	\$5,122
Compensation cost	474	6	468
	6,756	1,166	5,590
LTIP installment loans receivable	(5,852)	(1,102)	(4,750)
Interest on installment loans receivable	(299)	(87)	(212)
Distributions applied against installment loans receivable	896	234	662
Repayments of installment loans	145	145	-
	(5,110)	(810)	(4,300)
	\$ 1,646	\$356	\$ 1,290

## 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

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 June 30, 2007 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**

The REIT's assets are in, and its revenue is derived from, the downtown office markets in four major Canadian cities.

### **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 June 30, 2007 and December 31, 2006 were \$1,772 and \$2,545, respectively.

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

#### **(a) Real Estate Services**

The REIT engages in third-party property management business, including the provision of services for properties in which certain trustees of the REIT have an ownership interest. For the three month period ended June 30, 2007 real estate service revenue earned from these properties was \$96 (June 30, 2006 - \$121), which was fully paid in the period. For the six month period ended June 30, 2007 real estate service revenue earned from these properties was \$192 (June 30, 2006 - \$208), 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 Developer, prior to the REIT acquiring the business. The REIT assumed the terms of these agreements.

## (b) Rental Revenues

Rental revenues included amounts received from related parties as follows:

<b>Related Party</b>	<b>Nature of Revenue</b>	<b>Three Month Period Ended June 30, 2007 (Unaudited)</b>	<b>Three Month Period Ended June 30, 2006 (Unaudited)</b>	<b>Six Month Period Ended June 30, 2007 (Unaudited)</b>	<b>Six Month Period Ended June 30, 2006 (Unaudited)</b>
Vendors of properties	Head Lease	\$ 6	\$ 6	\$ 12	\$ 12
TechSpace Canada Inc.	Guarantee	17	11	33	23
Vendors of properties	Bridge Covenants	-	-	-	39
		<b>\$ 23</b>	<b>\$ 17</b>	<b>\$ 45</b>	<b>\$ 74</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 vendors, which are under common control of certain trustees of the REIT, honoured all of their obligations under the Head Lease and were released from the balance of their obligations there under when the REIT entered into direct lease arrangements with acceptable replacement tenants on acceptable terms.

### Guarantee:

TechSpace Canada Inc. ("TechSpace"), a subsidiary of the Developer, leased 29,102 square feet of office space from the REIT on commercial terms. The lease was to expire on September 30, 2010. The Developer indemnified the REIT in respect of all of TechSpace's obligations under the lease. Effective January 1, 2004, the REIT entered into a direct lease of this space with a new tenant for a term ending on September 30, 2010, on the condition that the original indemnity of the Developer remain in place to protect the REIT from any revenue shortfall (on a cash basis) from the original TechSpace lease. Effective July 1, 2005, the REIT entered into a direct lease of this space with Loblaw's Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer remain 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 provided the REIT with an income stream to coincide with rent-free periods that these vendors provided to the tenants prior to the REIT acquiring the rental properties. The vendors, which are under common control of certain trustees of the REIT, honoured all of their obligations under the Bridge Covenants.

## 19. Subsequent Events

On July 3, 2007, the REIT completed the acquisition of 45-55 Colborne Street, a 43,408 square foot, Class I office property in downtown Toronto, for a purchase price of \$10,000. A portion of the acquisition was financed by way of a mortgage loan of \$6,500 due in 2015. The mortgage loan bears interest of 5.54%

On August 2, 2007 the REIT placed a first mortgage on 44-50 Wellington Street East, Toronto, in the principal amount of \$5.5 million for a term of 10 years at an annual interest rate of 5.76%.

On August 7, 2007 the REIT closed a \$50,000 revolving credit facility with a Canadian chartered bank, which matures August 31, 2010. The credit facility bears interest at bank prime. Security for the facility consists of first and second mortgage charges on eight rental properties and security agreements covering assignment of rents and personal property with respect to the eight properties.

On August 8, 2007 the REIT announced the following:

- (i) an agreement to acquire 544 King Street West, a brick-and-beam property in downtown Toronto suitable for redevelopment, for a purchase price of \$4,750;
- (ii) an agreement to acquire from the Developer 555 College Street, a 52,892 square foot, Class I office property in downtown Toronto with 23 surface parking spaces, in accordance with the terms of the Option Agreement for a purchase price of \$14,200; and
- (iii) the exercise by an unrelated third-party of its prior option to acquire the Developer's remaining property under development, with the result that, on completion of the acquisition of 555 College Street, the Developer will have sold all of its properties under development.