



ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

SEPTEMBER 30, 2007

DATED NOVEMBER 8, 2007

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PART I

Forward-Looking Disclaimer

The terms “Allied Properties”, “the REIT”, “we”, “us” and “our” in the following Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) refer to Allied Properties Real Estate Investment Trust and its consolidated financial position and results of operations for the nine-month period ended September 30, 2007. This MD&A should be read in conjunction with our consolidated financial statements and notes thereto for the nine-month period ended September 30, 2007, and the year ended December 31, 2006. Historical results and percentage relationships contained in our consolidated financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance. Unless otherwise indicated, dollar amounts in this MD&A are in thousands.

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to Management’s beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as “indicators”, “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “continue” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect Management’s current beliefs and are based on information currently available to Management.

The forward-looking statements in this MD&A are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under “Risks and Uncertainties”, which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. Those risks and uncertainties include risks associated with property ownership, property development, geographic focus, asset-class focus, competition for real property investments, financing and interest rates, government regulations, environmental matters, construction liability, unitholder liability and taxation. Material assumptions that were made in formulating the forward-looking statements in this MD&A include the following: that the general economy remains stable; that our current target markets remain stable; that interest rates and capitalization rates are stable; and that the equity and debt markets continue to provide access to capital. Although the forward-looking statements contained in this MD&A are based on what Management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements.

All forward-looking statements in this MD&A are qualified by this forward-looking disclaimer. These statements are made as of November 8, 2007, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

Business Overview and Strategy

We are an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, as amended and restated on February 6, 2003 (“Declaration”). We are governed by the laws of Ontario. Our units are publicly traded on the Toronto Stock Exchange under the symbol AP.UN. Additional information on us is available on SEDAR at www.sedar.com.

Our objectives are to provide stable and growing cash distributions to our unitholders and to maximize unitholder value through the effective management and the accretive growth of our portfolio.

Property Portfolio

We completed our Initial Public Offering (“IPO”) on February 20, 2003. We used the net proceeds of the IPO to acquire a portfolio of 14 predominantly Class I office properties in downtown Toronto with 820,000 square feet of gross leasable area (“GLA”). By the end of 2006, we had acquired another 25 office properties in downtown Toronto, 24 of them Class I office properties, bringing our total GLA in that market to over two million square feet. We had also acquired five predominantly Class I office properties in downtown Montreal, seven in downtown Winnipeg and five in Quebec City, bringing our total portfolio at the end of 2006 to 56 properties with over 3.4 million square feet of GLA.

We made the following acquisitions in the nine-month period ended September 30, 2007, bringing our portfolio to 62 properties with over 4.6 million square feet of GLA:

Property	Acquired	Office GLA	Retail GLA	Total GLA	Parking Spaces
193 Yonge Street, Toronto	January 12, 2007	32,966	16,318	49,284	22
451-481 Saint Catherine Street, Montreal	February 8, 2007	20,805	9,634	30,439	0
106 Front Street East, Toronto	April 5, 2007	24,388	10,109	34,497	16
Cité Multimédia, Montreal	April 18, 2007	948,803	8,393	957,196	782
45-55 Colborne Street, Toronto	July 3, 2007	28,369	15,039	43,408	0
555 College Street, Toronto	September 1, 2007	41,041	19,145	60,186	23
Total		1,096,372	78,638	1,175,010	843

Class I office properties are created through the adaptive re-use of light industrial structures in urban areas. They typically feature high ceilings, abundant natural light, exposed structural frames, interior brick and hardwood floors. When restored and retrofitted to the standards of our portfolio, Class I buildings can satisfy the needs of the most demanding office and retail tenants. When operated in the coordinated manner of our portfolio, these buildings become a vital part of the urban fabric and contribute meaningfully to a sense of community.

Our portfolio accommodates a diverse base of tenants. At the end of 2006, business-service and professional tenants represented 35% of our gross revenue, retail tenants 18%, telecommunications and IT tenants 16%, media and entertainment tenants 14%, financial-service tenants 11%, government tenants 3% and other tenants 3%.

We are the leading provider of Class I office and ancillary retail space in Canada and intend to build on this advantage by continuing to make coherent office property acquisitions in our target markets. In doing so, we will strive to enhance on an ongoing basis the quantity and quality of our net rental income.

Two Toronto properties (47 Fraser Avenue and 47A Fraser Avenue), one Montreal property (the land adjacent to 4446 Saint Laurent Boulevard) and one Winnipeg property (1500 Notre Dame Avenue) are properties under development (“Properties Under Development” or “PUD”). They are undergoing the development or redevelopment necessary to function as high quality, income-producing, Class I office properties. We have also entered into an unconditional agreement to purchase 544 King Street West, Toronto, a brick-and-beam property that we plan to redevelop for office and ancillary retail use. The acquisition is expected to close on January 11, 2008, at which time the property will become a PUD.

We have an option agreement (“Option Agreement”) with Allied Canadian Development Corporation (“Developer”), pursuant to which the Developer must offer to sell us at fair market value all developed or redeveloped office properties upon substantial completion. Seven of the properties in our portfolio were acquired pursuant to the Option Agreement. The Developer has no further properties under development

or redevelopment at this time. While the Option Agreement permits the Developer to engage in development and redevelopment activity on an ongoing basis, the Developer is not currently pursuing office development or redevelopment opportunities and does not expect to do so in the foreseeable future.

Our portfolio has operated stably. The chart below summarizes the levels of GLA and leased area in the portfolio since our IPO:

	IPO	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
GLA (square feet)	820,120	984,856	1,636,343	2,321,507	3,415,279
% leased	96.9	97.5	99.2	97.0*	96.3*

*not including Properties Under Development

Stable portfolio operations and manageable growth in assets have enabled us to achieve its overriding objective of providing regular and growing cash distributions to its unitholders. The chart below summarizes the annualized cash distribution level and the total annual return for each fiscal year since our IPO:

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
Distribution level per unit annualized	\$1.10	\$1.14	\$1.18	\$1.22
Total return with reinvestment through DRIP	40.7%	17.6%	32.3%	46.8%
Total return without reinvestment	38.0%	16.2%	31.3%	44.3%

Property Management

Our wholly owned subsidiary, Allied Properties Management Limited Partnership (“Property Manager”), provides property management and related services to us and to third-party property owners on a fee-for-service basis.

Performance Measures

We measure the success of our strategies through key financial and operating performance measures.

Financial Measures

1. Distributions

We are focused on increasing distributions to our unitholders on a regular and prudent basis. During our first 12 months of operations, we made regular monthly distributions of \$1.10 per unit on an annualized basis. In March of 2004, we increased our monthly distributions by 3.6% to \$1.14 per unit on an annualized basis. In March of 2005, we increased our monthly distributions by 3.5% to \$1.18 per unit on an annualized basis. In March of 2006, we increased our monthly distributions by 3.4% to \$1.22 per unit on an annualized basis. In March of 2007, we increased our monthly distributions by 3.3% to \$1.26 per unit on an annualized basis.

2. Distributable Income

Increasing distributions can be achieved prudently by increasing Distributable Income (“DI”), as defined in the Declaration. See “Distributable Income” below. In 2006, DI per unit (diluted) was \$1.414, up 5.6% from 2005. In the nine-month period ended September 30, 2007, DI per unit (diluted) was \$1.229, up 15.3% from the comparable period in 2006.

3. DI Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate DI pay-out ratio, the ratio of actual distributions to DI in a given period. In 2006, we achieved a DI pay-out ratio of 85.3%. In the nine-month period ended September 30, 2007, we achieved a DI pay-out ratio of 76.5%.

4. Funds From Operations

Unlike DI, Funds From Operations (“FFO”) has a standardized definition. See “Funds From Operations” below. In 2006, FFO per unit (diluted) was \$1.527, up 2.5% from 2005. In the nine-month period ended September 30, 2007, FFO per unit (diluted) was \$1.236, up 7.5% from the comparable period in 2006. This increase is lower than the increase over the same period in DI per unit. This is because we set up a

mark-to-market rent adjustment for Cité Multimédia based on Management's estimate **at the time of acquisition** that in-place rents were 9% above market rents. See "Critical Accounting Estimates" below. In the second quarter, our net mark-to-market rent adjustment for Cité Multimédia reduced our FFO by \$955. In the third quarter, it reduced our FFO by \$1,170. The larger reduction in the third quarter stems from recent leasing success at Cité Multimédia. To facilitate the expansion of larger tenants, we allowed several smaller tenants to terminate their leases in the third quarter. As a result of these terminations, we were required by GAAP to accelerate and recognize the full mark-to-market rent adjustment in respect of those tenants, even though we replaced them with tenants paying rent at or above in-place rents. The accelerated recognition of this portion of the mark-to-market rent adjustment reduced our FFO per unit for the third quarter by nine-tenths of a cent on a non-recurring basis.

5. FFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate FFO pay-out ratio, the ratio of actual distributions to FFO in a given period. In 2006, we achieved an FFO pay-out ratio of 79.0%. In the nine-month period ended September 30, 2007, we achieved an FFO pay-out ratio of 76.0%.

6. Adjusted Funds From Operations

Increasing distributions cannot be achieved prudently without reference to adjusted funds from operations ("AFFO"), as this financial indicator takes account of regular maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. See "Adjusted Funds from Operations" below. In 2006, AFFO per unit (diluted) was \$1.239, up 1.5% from 2005. In the nine-month period ended September 30, 2007, AFFO per unit (diluted) was \$1.114, up 20.6% from the comparable period in 2006.

7. AFFO Pay-Out Ratio

To ensure we retain sufficient cash to meet our capital improvement and leasing objectives, we strive to maintain an appropriate AFFO pay-out ratio, the ratio of actual distributions to AFFO in a given period. In 2006, we achieved an AFFO pay-out ratio of 97.3%. In the nine-month period ended September 30, 2007, we achieved an AFFO pay-out ratio of 84.4%.

8. Debt Ratio

Gross Book Value ("GBV") is defined as the book value of the assets shown on our most recent balance sheet plus accumulated depreciation and amortization and an amount equal to the property management internalization expense that we have recorded. A conservative ratio of debt to GBV ("Debt Ratio") mitigates unitholder risk. At the end of 2006, the Debt Ratio was 48.2%. At September 30, 2007, the Debt Ratio was 54.2%.

Operating Measures

1. Tenant Retention and Replacement

We place a high value on tenant retention, as the cost of retention is typically lower than the cost of securing new tenancies. If retention is neither possible nor desirable, we strive for high-quality replacement tenants. Leases representing 571,259 square feet of GLA mature in 2007. By September 30, 2007, we renewed leases representing 370,071 square feet of this GLA and re-leased another 137,208 square feet of this GLA, representing 88.8% of the GLA covered by the maturing leases.

2. Occupancy

We strive to maintain consistently high levels of occupancy. At the end of 2006, our leased area was 96.3% (not including Properties Under Development). At September 30, 2007, our leased area was 97.9% (not including Properties Under Development).

3. Same-Asset Net Operating Income

We strive to maintain or increase same-asset net operating income (“NOI”) over time. See “Net Operating Income” below. Same-asset refers to those properties that we owned and operated for the entire period in question and for the same period in the prior year. Ignoring the step-rent revenue and the amortization of the fair value assigned to above-market and below-market rents with respect to acquired properties (the mark-to-market rent adjustment), same-asset NOI was \$30,349 in the nine-month period ended September 30, 2007, up 6.0% from the comparable period in 2006.

4. Leasing Expenditures

We monitor leasing expenditures carefully. 414,960 square feet of the GLA leased in the nine-month period ended September 30, 2007, involved new leases or lease-renewals that commenced in the period. \$2,463 in leasing expenditures relate to this space, representing \$5.94 per leased square foot, well below the amount per square foot in the comparable period last year. We expect annual leasing expenditures in 2007 will be at the lower end of our normal annual range of \$7.00 to \$10.00 per square foot of leased area.

5. Capital Expenditures

We strive to maintain our properties top physical condition. In the nine-month period ended September 30, 2007, we incurred \$1,706 in regular maintenance capital expenditures, representing \$0.38 per square foot of our portfolio, in-line with the amount per square foot in the comparable period last year. We expect annual maintenance capital expenditures in 2007 will be within our normal annual range of \$0.50 to \$0.60 per square foot of our portfolio.

Summary

The following table summarizes the key financial and operating performance measures for the nine-month period ended September 30, 2007, and the comparable period in 2006, as well as the change between the two.

	Nine-Month Period 2007	Nine-Month Period 2006	Change
Period-end distribution level per unit annualized	\$1.26	\$1.22	\$0.04
DI per unit (diluted)	\$1.229	\$1.066	\$0.163
DI pay-out ratio	76.5%	84.7%	(8.2%)
FFO per unit (diluted)	\$1.236	\$1.150	\$0.086
FFO pay-out ratio	76.0%	78.6%	(2.6%)
AFFO per unit (diluted)	\$1.114	\$0.924	\$0.190
AFFO pay-out ratio	84.4%	97.8%	(13.4%)
Debt Ratio	54.2%	50.2%	4.0%
Renewal/replacement % of leases maturing in year	88.8%	84.9%	3.9%
Period-end leased area (not including PUD)	97.9%	97.8%	0.1%
Same-asset NOI	\$30,349	\$28,627	\$1,722
Leasing expenditures	\$2,463	\$1,991	\$472
Leasing expenditures per leased square foot	\$5.94	\$7.70	(\$1.75)
Maintenance capital expenditures	\$1,706	\$1,038	\$668
Maintenance capital expenditures per portfolio square foot	\$0.38	\$0.39	(\$0.01)

Business Environment and Outlook

We operate in four target markets—downtown Toronto, downtown and midtown Montreal, downtown Winnipeg and downtown Quebec City. The following is a brief description of our target markets and current outlook:

Downtown Toronto

This target market includes 13.2 million square feet of office inventory in three sub-markets, Downtown East (2.1 million square feet), Downtown West (9.2 million square feet) and King West (1.9 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. The downtown Toronto office market is strong, with the overall vacancy rate having declined to 4.7% by the end of the third quarter of 2007 and the Downtown East, Downtown West and King West sub-markets finishing the quarter with vacancy rates of 8.4%, 4.4% and 12.8%, respectively.¹

Downtown and Midtown Montreal

This target market includes 17.7 million square feet of office inventory in three sub-markets, Downtown East (7.5 million square feet), Old Montreal (7.7 million square feet) and Mile End (2.5 million square feet). Approximately half of the office inventory in this target market falls within the Class I category. The downtown Montreal office market is strengthening, with the overall vacancy rate having declined to 7.3% by the end of the third quarter of 2007 and the Downtown East and Old Montreal sub-markets finishing the quarter with vacancy rates of 3.5% and 6.6%, respectively.²

Downtown Winnipeg

This target market includes 1.8 million square feet of office inventory, principally in the Exchange District. Most of the office inventory in the Winnipeg target market falls within the Class I category. The downtown Winnipeg office is stable, with the overall vacancy rate finishing the third quarter of 2007 at 8.9%.³

Downtown Quebec City

This target market includes 1.5 million square feet of office inventory in the St. Roch office node. Most of the office inventory in this target market falls within the Class I category. The Quebec City office market strengthened in 2006, with the overall vacancy rate declining to 3.7%.⁴ The strengthening is projected to continue through 2007.⁵

Outlook—Consolidation, Intensification and Development

Demand for office space in our target markets is solid, and supply is becoming constrained. The state of our target markets, the quality of our portfolio and the capabilities of our personnel afford Management a reasonable basis for confidence in our performance outlook. We intend to continue the systematic consolidation of Class I and other office properties in our target markets with a view to capturing value and enhancing the quantity and quality of our net rental income. We also intend to pursue intensification and development opportunities (within our target markets and sphere of operating expertise) with a view to creating value and enhancing the quantity and quality of our net rental income.

¹ Cushman & Wakefield LePage, *Third Quarter 2007 Statistical Summary, Toronto Office Market*.

² Cushman & Wakefield LePage, *Third Quarter 2007 Statistical Summary, Montreal Office Market*.

³ Cushman & Wakefield LePage, *National Real Estate Market Intelligence, Third Quarter 2007*.

⁴ Avison Young, *Real Estate Forecast 2007*.

⁵ Avison Young, *Real Estate Forecast 2007*.

PART II

Summary Information and Performance for the Nine-Month Period ended September 30, 2007

The following sets out summary information and financial results for the nine-month period ended September 30, 2007, and the comparable period and the change between the two.

(In thousands except for per unit and % amounts)	Nine-Month Period 2007	Nine-Month Period 2006	Change	%Change
Revenue from rental properties	75,688	46,358	29,330	63.3%
Rental property operating cost	29,408	16,406	13,002	79.3%
Net rental income	46,280	29,952	16,328	54.5%
Real estate service income	330	323	7	2.2%
Financing expense				
Interest	15,908	9,616	6,292	65.4%
Amortization - Mortgage premium	(264)	(185)	(79)	42.7%
Amortization – Deferred financing cost	247	-	247	-
Amortization				
Rental properties	9,349	5,521	3,828	69.3%
Deferred leasing cost and tenant improvements	1,292	863	429	49.7%
Origination cost and acquired tenant relationships	13,323	5,738	7,585	132.2%
Acquired contracts and customer relationships	72	72	-	0.0%
Deferred financing cost	-	182	(182)	(100.0%)
Computer and office equipment	34	24	10	41.7%
Income from operations	6,649	8,444	(1,795)	(21.3%)
Trust expense	1,814	1,780	34	1.9%
Net income	4,835	6,664	(1,829)	(27.4%)
Amortization				
Rental properties	9,349	5,521	3,828	69.3%
Mortgage premium	(264)	(185)	(79)	42.7%
Acquired leases	4,109	1,949	2,160	110.8%
M-T-M acquired leases	2,118	95	2,023	2129.5%
Acquired tenant relationships	9,215	3,790	5,425	143.1%
Acquired contracts and customer relationships	72	72	-	0.0%
Step-rent adjustments	(808)	(756)	(52)	6.9%
LTIP compensation expense	6	270	(264)	(97.8%)
DI	28,632	17,420	11,212	64.4%
Weighted average units outstanding (basic)	22,886	16,020	6,866	42.9%
Weighted average units outstanding (diluted)	23,293	16,337	6,956	42.6%
Distributions	21,897	14,761	7,136	48.3%
DI per unit (basic)	\$1.251	\$1.087	\$0.164	15.1%
DI per unit (diluted)	\$1.229	\$1.066	\$0.163	15.3%
DI pay-out ratio	76.5%	84.7%	(8.2%)	
FFO	28,799	18,786	10,013	53.3%
FFO per unit (basic)	\$1.258	\$1.173	\$0.085	7.2%
FFO per unit (diluted)	\$1.236	\$1.150	\$0.086	7.5%
FFO pay-out ratio	76.0%	78.6%	(2.6%)	
AFFO	25,940	15,096	10,844	71.8%
AFFO per unit (basic)	\$1.133	\$0.942	\$0.191	20.3%
AFFO per unit (diluted)	\$1.114	\$0.924	\$0.190	20.6%
AFFO pay-out ratio	84.4%	97.8%	(13.4%)	
NOI	47,590	29,291	18,299	62.5%
Same-asset net operating income	30,349	28,627	1,722	6.0%
Total assets	789,876	443,945	345,931	77.9%
Total debt (excludes premium on assumed debt)	464,633	241,765	222,868	92.2%
Debt to GBV	54.2%	50.2%	4.0%	
Total GLA (s.f., excluding PUD)	4,484	2,657	1,827	68.6%
Leased GLA (s.f., excluding PUD)	4,391	2,599	1,792	68.9%
Leased GLA (% total GLA)	97.9%	97.8%	0.1%	

Net income for the nine-month period ended September 30, 2007, was \$4,835, as compared to \$6,664 in the nine-month period ended September 30, 2006. The period-over-period decline resulted solely from the amortization of intangibles associated with the acquisition of Cité Multimédia in April of 2007. Net income per unit (diluted) for the period was \$0.216, as compared to net income per unit (diluted) of \$0.408 in the comparable period.

DI for the nine-month period ended September 30, 2007, increased by 64.4% to \$28,632 from \$17,420 for the nine-month period ended September 30, 2006. DI per unit (diluted) for the period was \$1.229, as compared to DI per unit (diluted) of \$1.066 in the comparable period.

Net Rental Income

Net rental income for the nine-month period ended September 30, 2007, increased by 54.5% to \$46,280 from \$29,952 in the nine-month period ended September 30, 2006, as follows:

- (i) \$1,082 due to the increase in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments); and
- (ii) \$15,246 due to net rental income from properties not owned for the entire period and the entire comparable period.

Of the \$41,048 of net rental income for the year ended December 31, 2006, \$752 of operating cost recoveries is in dispute with a tenant. Of the \$46,280 of net rental income for the nine-month period ended September 30, 2007, \$465 of operating cost recoveries is in dispute with a tenant. Based on the advice of legal counsel and an independent firm of chartered accountants, Management is of the view that there is no merit to the tenant's position and is diligently pursuing the matter.

Net rental income per occupied square foot for the nine-month period ended September 30, 2007, was \$14.05 annualized, as compared to \$15.37 annualized in the nine-month period ended September 30, 2006. The period-over-period decline is reflective of the fact that we recently acquired more property in target markets with lower net rental rates than our Toronto target market.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the nine-month period ended September 30, 2007, was \$330, as compared to \$323 in the nine-month period ended September 30, 2006.

Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$264 in the nine-month period ended September 30, 2007.

Financing expense for the nine-month period ended September 30, 2007, increased by 68.5% to \$15,891 from \$9,431 in the period ended September 30, 2006, due to the increase in financing expense associated with additional properties acquired in 2006 and 2007 and the change in accounting policies described in note 3(o) of our consolidated financial statements for the nine-month period ended September 30, 2007.

Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the nine-month period ended September 30, 2007, increased by 69.3% to \$9,349 from \$5,521 in the nine-month period ended September 30, 2006.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease. We amortize deferred financing cost on a straight-line basis over the term of the corresponding debt.

Trust Expense

Trust expense includes cost not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the nine-month period ended September 30, 2007, increased by 1.9% to \$1,814 from \$1,780 in the nine-month period ended September 30, 2006, as a result of increased salary and occupancy costs, offset in part by a period-over-period decline in the non-cash compensation expense associated with our long-term incentive plan ("LTIP").

Leasing Activity

Leasing activity as at September 30, 2007, is summarized in the following table:

	Vacant or Maturing	Leased by September 30	% Leased By September 30	Vacant September 30*
Vacant GLA on January 1, 2007*	124,436	63,488	51.0%	60,948
Vacant GLA on acquisition in 2007	18,060	9,331	51.7%	8,729
GLA accessed through rationalization	na	na	na	na
GLA maturing in first nine months of 2007	432,660	409,994	94.8%	22,666
Subtotal	515,156	487,779	84.8%	92,343
GLA maturing in remainder of 2007	138,599	97,285	70.2%	na
Total	653,755	585,064	89.5%	92,343

*not including Properties Under Development

124,436 square feet of GLA were vacant at the beginning of 2007. By September 30, 2007, we leased 63,488 square feet of this originally vacant GLA, leaving 60,948 square feet vacant.

Leases for 571,259 square feet of GLA mature in 2007, of which 432,660 square feet of GLA matured in the nine-month period ended September 30, 2007. By September 30, 2007, we

- (i) renewed or replaced leases for 409,994 square feet of the GLA that matured in the period, leaving 22,666 square feet vacant and
- (ii) renewed or replaced leases for 97,285 square feet of the GLA maturing in the remainder of 2007.

With respect to the maturing leases renewed or replaced in the nine-month period ended September 30, 2007 (432,660 square feet of GLA), we achieved rental rates

- (i) above in-place rental rates with respect to 61% of this GLA,
- (ii) equal to in-place rental rates with respect to 32% of this GLA and
- (iii) slightly less than in-place rental rents with respect to 7% of this GLA.

We had two larger vacancies in our Toronto portfolio through much of the nine-month period ended September 30, 2007. One was 29,851 square feet at 230 Richmond Street East. We have leased this space to George Brown College for a term of 10 years and seven months commencing December 1, 2007, at net rental rates slightly less than those payable under the lease to the prior tenant. The other was 27,246 square feet at 358-360 Adelaide Street West. We have leased this space to Omnicom Group for a term of 10 years commencing April 1, 2008, at net rental rates considerably above those payable under the leases to the prior tenants.

In the nine-month period ended September 30, 2007, Motorola announced the closure of its software-development centre at Cité Multimédia (two floors at Phase V, comprising 73,532 square feet of space) as part of a global restructuring expected to reduce the company's total workforce by over 10%. Motorola has nearly four years to run on its lease, which expires on May 30, 2011, with the result that Management anticipates no near-term financial exposure as a result of the closure. Management is also of the view

that Motorola's net rent (currently \$16.74 per square foot) is below market levels, increasing the likelihood of rental growth upon replacement of Motorola following the expiry of its lease.

We completed five lease transactions at Cité Multimédia in the nine-month period ended September 30, 2007, all at net rental rates equal to or above in-place rental rates. As a result of this leasing activity, the leased area in Cité Multimédia increased to 99.4% by the end of the period. Management is especially pleased with the fact that the net rental rates achieved on recent leasing activity are equal to or above in-place rental rates.

The leased area in our Winnipeg portfolio increased to 92.8% by the end of the nine-month period ended September 30, 2007. Management is pleased with this reasonably rapid progress.

Capital Expenditures

Our portfolio requires ongoing maintenance capital expenditures and leasing expenditures. Leasing expenditures include the cost of in-suite or base-building improvements made in connection with the leasing of vacant space or the renewal or replacement of tenants occupying space covered by maturing leases, as well as improvement allowances and commissions paid in connection with the leasing of vacant space and the renewal or replacement of tenants occupying space covered by maturing leases.

In the nine-month period ended September 30, 2007, we incurred or committed to (i) \$1,706 in regular maintenance capital expenditures (\$0.38 per portfolio square foot) and (ii) \$2,463 in leasing expenditures (\$5.94 per leased square foot) in connection with new leases or lease-renewals that commenced in the period. In addition, we incurred \$2,200 in revenue-enhancing capital and leasing expenditures in connection with space that was significantly reconfigured and retrofitted to accommodate high-value new tenancies.

\$281 of the salary expense incurred in the nine-month period ended September 30, 2007, was capitalized in connection with capital improvements to our rental properties and Properties Under Development. This amount was equivalent to approximately 6% of the associated construction costs.

Properties Under Development

We believe that the Properties Under Development represent risk-appropriate opportunities to enhance DI per unit and create value for unitholders. We also believe that the Properties Under Development represent an opportunity to capitalize more fully on the experience and expertise of our personnel.

1. Completed

The following properties have been completed and are now carried as rental properties:

- We acquired **145 Berkeley Street, Toronto**, in November of 2005. At that time, 20% of the GLA in the property was occupied. We leased the vacant space in the property, with the result that it became a rental property for accounting purposes on October 31, 2006. In the first quarter of 2007, the property was appraised at \$2,170 by an independent appraiser. On May 15, 2007, we placed a first mortgage on the property in the principal amount of \$1,630. In doing so, we financed our entire investment in the property.
- We also acquired **QRC South (103 Richmond Street East, Toronto)** in November of 2005. At that time, less than 40% of the GLA in the property was occupied. We have redeveloped the property as an annex to The Queen Richmond Centre, a Class I office complex acquired in 2004 and known as QRC, and increased the leased area to over 62%. The property became a rental property for accounting purposes on April 1, 2007. We intend to place first mortgage financing on the property early next year.
- We acquired **257 Adelaide Street West, Toronto**, in June of 2006. At that time, less than 60% of the GLA in the property was occupied. We have redeveloped the property and increased the leased area to 85%. The property became a rental property for accounting purposes on July 1, 2007. We intend to place first mortgage financing on the property early next year.

2. In Progress

The following properties are in progress and carried (or to be carried on closing) as Properties Under Development:

- We acquired **47 and 47A Fraser Avenue, Toronto** (two satellite buildings at The Castle in Liberty Village) in December of 2006. The upgrade of the two properties will be performed in conjunction with, and customized to, the re-leasing effort, which is underway. We are working with a prospective tenant interested in leasing two of the three floors at 47 Fraser Avenue and with an existing tenant at The Castle interested in expanding into two of the four floors at 47A Fraser.
- We acquired approximately 5,500 square feet of land adjacent to **4446 Saint Laurent Boulevard, Montreal**, in April of 2006. We have evaluated the potential development of a 22,000 square foot building on the land to accommodate office and ancillary retail users and concluded that it is feasible. We are now working toward securing an anchor tenant for the development.
- We acquired **1500 Notre Dame Avenue, Winnipeg**, as part of a portfolio acquisition in December 31 of 2007. The property was historically used for the garment trade and became a Property Under Development on July 1, 2007, after the principal garment tenant's lease expired. We intend to reposition the property for office and ancillary retail use.
- We have entered into an unconditional agreement to purchase **544 King Street West, Toronto**, a brick-and-beam property that we intend to redevelop and expand for office and ancillary retail use. The acquisition is expected to close on January 11, 2008, at which time the property will become a Property 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.

As at September 30, 2007, the cost of our Properties Under Development was \$8.9 million, which was equivalent to 1% of our GBV.

Distributable Income

We define DI as the net income determined in accordance with Canadian generally accepted accounting principles ("GAAP") adjusted by adding back or deducting as required:

- (i) depreciation on rental properties;
- (ii) amortization of the premiums or discounts on assumed mortgages;
- (iii) non-cash rental revenue recorded to recognize rental income rateably over the life of each lease;
- (iv) non-cash compensation expense with respect to the LTIP;
- (v) amortization of values ascribed in a building acquisition to in-place leases and tenant relationships;
- (vi) amortization of values ascribed in a building acquisition to above-market and below-market leases;
- (vii) amortization of values ascribed in the property management internalization to acquired contracts and customer relationships; and

(viii) property management internalization expense.

DI is a non-GAAP financial measure used by some Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. DI does not have any standardized meaning prescribed by GAAP. As computed by us, DI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers DI to be a useful measure of cash available for distributions. The following reconciles cash flow from operations, as presented in the consolidated financial statements, to DI.

(In thousands)	Nine-Month Period 2007	Nine-Month Period 2006
Cash flow from operations	\$6,189	\$18,566
Amortization of deferred leasing cost, tenant improvements	(1,292)	(988)
Amortization of deferred financing cost	(247)	(24)
Amortization of computer and office equipment	(34)	(72)
Amortization, tenant inducements	(34)	-
Change in non-cash operating items	24,050	(62)
DI	\$28,632	\$17,420

Distributions for the nine-month period ended September 30, 2007, were \$21,897, representing a DI pay-out ratio of 76.5%, as compared to distributions for the nine-month period ended September 30, 2006, of \$14,761, representing a DI pay-out ratio of 84.7%.

Funds From Operations

FFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. While FFO does not have any standardized meaning prescribed by GAAP, the Real Property Association of Canada ("REALpac") established a standardized definition of FFO in its White Paper on Funds From Operations dated November 30, 2004. Essentially, the REALpac definition is net income with most non-cash expenses added back. Management believes that this definition is followed by most Canadian real estate investment trusts and that it is a useful measure of cash available for distributions. The following reconciles net income, as presented in the consolidated financial statements, with FFO, as calculated in accordance with recommendations of the REALpac definition.

(In thousands)	Nine-Month Period 2007	Nine-Month Period 2006
Net income	\$4,835	\$6,664
Amortization on rental properties	9,349	5,521
Amortization of deferred leasing cost and tenant improvements	1,292	863
Amortization of origination cost and acquired tenant relationships	13,323	5,738
FFO	\$28,799	\$18,786

Distributions for the nine-month period ended September 30, 2007, represented an FFO pay-out ratio of 76.0%, as compared to distributions for the nine-month period ended September 30, 2006, which represented an FFO pay-out ratio of 78.6%.

Adjusted Funds From Operations

AFFO is a non-GAAP financial measure used by most Canadian real estate investment trusts and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. AFFO does not have any standardized meaning prescribed by GAAP. As computed by us, AFFO may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers AFFO to be a useful measure of cash available for distributions. The principal advantage of AFFO is that it starts from the standardized definition of FFO and takes account of maintenance capital expenditures and regular leasing expenditures while ignoring the impact of non-cash revenue. Because maintenance capital expenditures and regular leasing expenditures are not incurred evenly throughout a fiscal year, there can be volatility in AFFO on a quarterly basis. The

following reconciles net income, as presented in the consolidated financial statements, with AFFO, calculated in accordance with what Management believes to be industry practice.

(In thousands)	Nine-Month Period 2007	Nine-Month Period 2006
FFO	\$28,799	\$18,786
Step-rent adjustments	(808)	(756)
M-T-M acquired leases	2,118	95
Leasing expenditures	(2,463)	(1,991)
Maintenance capital expenditures	(1,706)	(1,038)
AFFO	\$25,940	\$15,096

Distributions for the nine-month period ended September 30, 2007, represented an AFFO pay-out ratio of 84.4%, as compared to distributions for the nine-month period ended September 30, 2006, which represented an AFFO pay-out ratio of 97.8%.

Net Operating Income

NOI is a non-GAAP financial measure and should not be considered as an alternative to net income, cash flow from operations or any other measure prescribed under GAAP. NOI does not have any standardized meaning prescribed by GAAP. As computed by us, NOI may differ from similar computations reported by other Canadian real estate investment trusts and, accordingly, may not be comparable to similar computations reported by such organizations. Management considers NOI to be a useful measure of performance for rental properties. The following reconciles net rental income, as presented in the consolidated financial statements, to NOI.

(In thousands)	Nine-Month Period 2007	Nine-Month Period 2006
Revenue from rental properties	\$76,688	\$46,358
Rental property operating cost	29,408	16,406
Net rental income	46,280	29,952
M-T-M acquired leases	2,118	95
Step-rent adjustments	(808)	(756)
NOI	\$47,590	\$29,291

PART III

Financial Condition

We finance our operations through three sources of capital: (i) mortgage debt secured by our rental properties, (ii) secured short-term debt financing with a Canadian chartered bank and (iii) equity. As at September 30, 2007, we had mortgage debt of \$438,120, short-term debt of \$28,644 and unitholders' equity of \$296,641.

Unitholders' Equity

As at September 30, 2007, we had a market capitalization of approximately \$554,171 based on a closing unit price of \$22.07 on the Toronto Stock Exchange. As at September 30, 2006, we had a market capitalization of approximately \$346,927 based on a closing unit price of \$19.15 on the Toronto Stock Exchange.

In the nine-month period ended September 30, 2007, we issued a total of 4,979,395 units for equity contributions of \$103,319. Costs incurred to issue the units were \$4,580. Units were issued as follows:

- (i) 4,825,000 units at \$20.75 per unit for gross proceeds of \$100,119, pursuant to a bought deal that closed on April 12, 2007;
- (ii) 51,500 units at \$22.64 for \$1,166 to certain officers and trustees under the LTIP;
- (iii) 89,895 units under its distribution re-investment plan at an average price of \$21.19 per unit for \$1,904; and
- (iv) 13,000 units at \$10.00 per unit for \$130 to certain officers who exercised options under the Unit Option Plan.

We adopted a Unit Option Plan at the time of our IPO and granted at that time options to our trustees and officers to acquire 345,000 units at an exercise price of \$10.00 per unit prior to February 19, 2008. In 2004, the maximum number of units reserved for the Unit Option Plan was reduced from 604,390 units to 345,000 units. In 2004, 2005, 2006 and the nine-month period ended September 30, 2007, our trustees and officers exercised 302,500 options in accordance with their terms. As at September 30, 2007, 42,500 options were outstanding, all of which had vested.

In May of 2004, we adopted the LTIP whereby our trustees and officers ("Participants") may from time to time, at the discretion of the trustees and subject to regulatory approval, subscribe for units at a market price established in accordance with the provisions of the LTIP. The price for the units is payable as to 5% upon issuance and as to the balance ("LTIP Loan") over 10 years with interest on the LTIP Loan at an annual rate established in accordance with the provisions of the LTIP. The units issued pursuant to the LTIP are registered in the name of a Custodian on behalf of the Participants who are the beneficial owners. The units are pledged to us as security for payment of the LTIP Loan, and all distributions paid on the units are forwarded by the Custodian to us and applied first on account of interest on the LTIP Loan and then to reduce the outstanding balance of the LTIP Loan.

In May of 2007, we amended the Unit Option Plan and the LTIP to limit the number of units authorized for issuance under the Unit Option Plan, the LTIP or any other equity compensation plan to 5% of the issued and outstanding units from time to time.

Mortgages Payable

Mortgages payable as at September 30, 2007, consisted of mortgage debt of \$438,120. The following sets out the maturity schedule of our mortgage debt, together with the weighted average interest on the mortgages that mature in the respective year.

	Periodic Principal Payments	Balance Due at Maturity	Total Principal	% of Total Principal	WA Interest Rate of Maturing Mortgages
2007	2,659	4,978	7,637	1.7%	5.85%
2008	10,646	6,486	17,132	3.9%	6.29%
2009	10,790	14,022	24,812	5.7%	6.40%
2010	11,084	4,478	15,562	3.5%	5.35%
2011	11,481	8,496	19,977	4.6%	6.57%
Thereafter	41,125	311,875	353,000	80.6%	5.49%
Total	87,785	350,335	438,120	100.0%	

Interest rates on the mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 5.59%. The weighted average term of the mortgage debt is seven years.

Each individual mortgage loan is secured by a mortgage registered on title of a rental property and by security agreements covering assignment of rents and personal property with respect to such property. The mortgage debt provides the holder with recourse to our assets. We attempt to stagger the maturity of its mortgages and to have mortgages maturing each year to be in a position to upward finance the principal amount of maturing mortgages as needed. Additionally, we attempt to maintain 15 to 20% of our rental properties free from traditional long-term mortgage financing with a view to providing these assets as security for bank credit facilities.

Bank Credit Facility

We have a \$50,000 revolving credit facility ("Facility") with a Canadian chartered bank bearing interest at bank prime and maturing on August 31, 2010. The credit facility is secured by a combination of mortgage charges and security agreements on certain of our rental properties. In the nine-month period ended September 30, 2007, the average borrowings under the Facility and prior credit facilities were \$17,687. As at September 30, 2007, the borrowings under the Facility were \$28,644.

Following September 30, 2007, we placed \$19,950 in first-mortgage financing on two of our Toronto properties—555 College Street and 99 Spadina Avenue—for terms of 10 years at a weighted average interest rate of 5.90% per year. The proceeds were used to reduce our borrowings under the Facility.

Liquidity and Commitments

Net operating income generated from the rental properties is the primary source of liquidity to fund our financing expense, trust expense and distributions to unitholders. The Declaration requires us to declare distributions each year not less than the greater of (i) 75% of our DI or (ii) an amount to ensure that we will not be subject to tax on our income and capital gains. We intend to pay distributions of approximately 85 to 90% of DI.

We expect that increased financing on maturing mortgages will provide sufficient cash flow to fund mortgage repayments. We plan to fund anticipated ongoing commitments, obligations, capital expenditures and leasing expenditures by using retained cash flow from operations and availing ourselves of borrowing capacity under the Facility.

The Facility, new mortgage financing and the access to the public equity markets will provide the necessary capital we require for acquisitions. Our acquisition capacity, meaning our ability to use unutilized borrowing capacity while not exceeding the 60% Debt Ratio, is \$124,000.

As at September 30, 2007, we had future commitments as set out below.

(In thousands)	September 30, 2007
Leasing commissions	\$ 507
Tenant improvements	284
Building renovations and maintenance capital expenditures	391
Revenue-enhancing capital and leasing expenditure	1,318
Properties Under Development	-
Expenses	536
Total	\$3,036

PART IV

The following sets out summary information and financial results for the quarter ended September 30, 2007, and the comparable quarter and the change between the two.

(In thousands except for per unit and % amounts)	Q3 2007	Q3 2006	Change	%Change
Revenue from rental properties	27,718	15,948	11,770	74.8%
Rental property operating cost	10,578	5,478	5,100	93.1%
Net rental income	17,140	10,470	6,670	63.7%
Real estate service income	106	110	(4)	(3.6%)
Financing expense				
Interest	6,271	3,351	2,920	87.1%
Amortization - Mortgage premium	(80)	(89)	9	(10.1%)
Amortization - Deferred financing cost	60	-	60	-
Amortization				
Rental properties	3,758	1,908	1,850	97.0%
Deferred leasing cost and tenant improvements	404	338	66	19.5%
Origination cost and acquired tenant relationships	5,581	2,031	3,550	174.8%
Acquired contracts and customer relationships	24	24	-	0.0%
Deferred financing cost	-	57	(57)	(100.0%)
Computer and office equipment	11	8	3	37.5%
Income from operations	1,217	2,952	(1,735)	(58.8%)
Trust expense	537	495	42	8.5%
Net income	680	2,457	(1,777)	(72.3%)
Amortization				
Rental properties	3,758	1,908	1,850	97.0%
Mortgage premium	(80)	(89)	9	(10.1%)
Acquired leases	1,778	678	1,100	162.2%
M-T-M acquired leases	1,188	(61)	1,249	(2047.5%)
Acquired tenant relationships	3,804	1,355	2,449	180.7%
Acquired contracts and customer relationships	24	24	-	0.0%
Step-rent adjustments	(218)	(192)	(26)	13.5%
LTIP compensation expense	-	-	-	-
DI	10,934	6,080	4,854	79.8%
Weighted average units outstanding (basic)	24,722	16,397	8,325	50.8%
Weighted average units outstanding (diluted)	25,132	16,772	8,360	49.8%
Distributions	7,866	5,102	2,764	54.2%
DI per unit (basic)	\$0.442	\$0.371	\$0.071	19.1%
DI per unit (diluted)	\$0.435	\$0.363	\$0.072	19.8%
DI pay-out ratio	71.9%	83.9%	(12.0%)	
FFO	10,423	6,734	3,689	54.8%
FFO per unit (basic)	\$0.422	\$0.411	\$0.011	2.7%
FFO per unit (diluted)	\$0.415	\$0.402	\$0.013	3.2%
FFO pay-out ratio	75.5%	75.8%	(0.3%)	
AFFO	9,762	5,004	4,758	95.1%
AFFO per unit (basic)	\$0.395	\$0.305	\$0.090	29.5%
AFFO per unit (diluted)	\$0.388	\$0.298	\$0.090	30.2%
AFFO pay-out ratio	80.6%	102.0%	(21.4%)	
NOI	18,110	10,217	7,893	77.3%
Same-asset net operating income	10,528	10,129	399	3.9%
Total assets	789,876	443,945	345,931	77.9%
Total debt (excludes premium on assumed debt)	464,633	241,765	222,868	92.2%
Debt to GBV	54.2%	50.2%	4.0%	
Total GLA (s.f., excluding PUD)	4,484	2,657	1,827	68.6%
Leased GLA (s.f., excluding PUD)	4,391	2,599	1,792	68.9%
Leased GLA (% total GLA)	97.9%	97.8%	0.1%	

Net income for the quarter ended September 30, 2007, was \$680, as compared to \$2,457 in the quarter ended September 30, 2006. The quarter-over-quarter decline in net income resulted solely from the amortization of intangibles associated with the acquisition of Cité Multimédia in April of 2007. Net income per unit (diluted) for the quarter was \$0.027, as compared to net income per unit (diluted) of \$0.146 in the comparable quarter.

DI for the quarter ended September 30, 2007, increased by 79.8% to \$10,934 from \$6,080 for the quarter ended September 30, 2006. DI per unit (diluted) for the quarter was \$0.435, as compared to DI per unit (diluted) of \$0.363 in the comparable quarter.

Net Rental Income

Net rental income for the quarter ended September 30, 2007, increased by 63.8% to \$17,140 from \$10,470 in the quarter ended September 30, 2006, as follows:

- (i) \$353 due to the increase in same-asset net rental income from properties owned for the entire period and the entire comparable period (which includes the period-over-period change in step-rent adjustments); and
- (ii) \$6,317 due to net rental income from properties not owned for the entire period and the entire comparable period.

Of the \$17,140 of net rental income for the quarter ended September 30, 2007, \$205 of operating cost recoveries is in dispute with a tenant. Based on the advice of legal counsel and an independent firm of chartered accountants, Management is of the view that there is no merit to the tenant's position and is diligently pursuing the matter.

Net rental income per occupied square foot for the quarter ended September 30, 2007, was \$15.62 annualized, as compared to \$16.11 annualized in the quarter ended September 30, 2006. The quarter-over-quarter decline is reflective of the fact that we recently acquired more property in target markets with lower net rental rates than our Toronto target market.

Real Estate Service Income

The Property Manager provides real estate services to third-party property owners. Real estate service income for the quarter ended September 30, 2007, was \$106, as compared to \$110 in the quarter ended September 30, 2006.

Financing Expense

Financing expense includes interest cost on mortgage debt and other credit facilities and the amortization of the premiums and discounts on assumed mortgages. The amortization of the premiums and discounts on assumed mortgages reduced financing expense by \$80 in the quarter ended September 30, 2007.

Financing expense for the quarter ended September 30, 2007, increased by 91.6% to \$6,251 from \$3,262 in the quarter ended September 30, 2006, due to the increase in financing expense associated with additional properties acquired in 2006 and 2007 and the change in accounting policies described in note [3(o)] of our consolidated financial statements for the nine-month period ended September 30, 2007.

Amortization

We record amortization on our buildings on a straight-line basis over their expected life. Amortization recorded on buildings for the quarter ended September 30, 2007, increased by 97.0% to \$3,758 from \$1,908 in the quarter ended September 30, 2006.

We record amortization of deferred leasing cost, tenant improvements and the assigned fair value of the origination cost and tenant relationships for in-place leases acquired on acquisition of a rental property on a straight-line basis over the term of the corresponding lease. Deferred financing cost is amortized on a straight-line basis over the term of the corresponding debt.

Trust Expense

Trust expense includes cost that is not directly attributable to rental property, such as officers' compensation, trustees' fees, professional fees for legal and audit services, trustees' and officers' insurance premiums and general administrative expenses.

Trust expense for the quarter ended September 30, 2007, increased by 8.5% to \$537 from \$495 in the quarter ended September 30, 2006, as a result of a period-over-period increase in salary and occupancy costs.

PART V

Summary Quarterly Information and Performance

The following sets out summary information and financial results for the eight most recently completed fiscal quarters.

(In thousands except for per unit and % amounts)	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Revenue from rental properties	27,718	27,424	20,546	17,871	15,948	15,467	14,943	14,291
Rental property operating cost	10,578	10,831	7,999	6,775	5,478	5,385	5,543	5,145
Net rental income	17,140	16,593	12,547	11,096	10,470	10,082	9,400	9,146
Real estate service income	106	137	87	113	110	103	110	78
Financing expense	6,251	5,914	3,726	3,395	3,262	3,188	2,981	2,711
Amortization	9,778	8,615	5,677	5,264	4,366	4,047	3,987	3,919
Income from operations	1,217	2,201	3,231	2,550	2,952	2,950	2,542	2,594
Trust expense	537	587	690	597	495	767	518	631
PM internalization expense	-	-	-	900	-	-	-	-
Net income (loss)	680	1,614	2,541	1,053	2,457	2,183	2,024	1,963
Amortization								
Rental properties	3,758	3,280	2,311	2,107	1,908	1,837	1,776	1,692
Mortgage premium	(80)	(92)	(92)	(98)	(89)	(54)	(42)	(182)
Acquired leases	1,778	1,531	800	770	678	635	636	633
M-T-M acquired leases	1,188	907	23	67	(61)	68	88	181
Acquired tenant relationships	3,804	3,412	1,999	1,904	1,355	1,191	1,244	1,311
Acquired contracts and customer relationships	24	24	24	24	24	24	24	24
Step-rent adjustments	(218)	(465)	(125)	(165)	(192)	(209)	(355)	(339)
PM internalization expense	-	-	-	900	-	-	-	-
LTIP compensation expense	-	-	6	-	-	270	-	-
DI	10,934	10,211	7,487	6,562	6,080	5,945	5,395	5,283
Weighted average units (basic)	24,722	24,087	19,793	18,445	16,397	15,848	15,809	15,350
Weighted average units (diluted)	25,132	24,517	20,176	18,824	16,772	16,166	16,064	15,606
Distributions	7,866	7,922	6,109	5,696	5,102	4,891	4,768	4,578
DI per unit (basic)	\$0.442	\$0.424	\$0.378	\$0.356	\$0.371	\$0.375	\$0.341	\$0.344
DI per unit (diluted)	\$0.435	\$0.416	\$0.371	\$0.349	\$0.363	\$0.368	\$0.336	\$0.339
DI pay-out ratio	71.9%	77.6%	81.6%	86.8%	83.9%	82.3%	88.4%	86.7%
FFO	10,423	10,192	8,184	7,125	6,734	6,139	5,913	5,782
FFO per unit (basic)	\$0.422	\$0.423	\$0.413	\$0.386	\$0.411	\$0.387	\$0.374	\$0.377
FFO per unit (diluted)	\$0.415	\$0.416	\$0.406	\$0.379	\$0.402	\$0.380	\$0.368	\$0.370
FFO pay-out ratio	75.5%	77.7%	74.6%	79.9%	75.8%	79.7%	80.6%	79.2%
NOI	18,110	17,035	12,445	10,998	10,217	9,941	9,133	8,988
Net income per unit (basic)	\$0.028	\$0.067	\$0.128	\$0.057	\$0.147	\$0.138	\$0.128	\$0.128
Net income per unit (diluted)	\$0.027	\$0.066	\$0.126	\$0.056	\$0.144	\$0.135	\$0.126	\$0.126
Total assets	789,876	771,353	532,302	502,906	443,945	405,827	384,963	384,538
Total debt	464,633	443,334	295,776	263,464	241,765	224,498	212,226	210,093
Debt Ratio	54.2%	53.3%	50.7%	48.20%	50.2%	53.2%	51.2%	51.0%
Total GLA (s.f., excluding PUD)	4,484	4,446	3,409	3,321	2,657	2,387	2,266	2,266
Leased GLA (s.f., excluding PUD)	4,391	4,295	3,272	3,197	2,599	2,346	2,202	2,197
Leased Area (%GLA)	97.9%	96.6%	96.0%	96.3%	97.8%	98.3%	97.2%	97.0%

PART VI

Critical Accounting Estimates

The significant accounting policies used in preparing our consolidated financial statements are described in Note 3 to those statements. The following is a discussion of Management's estimates that are most important to the presentation of our results of operations and financial condition and are most subjective as a result of matters that are inherently uncertain.

Fair Value of Assumed Mortgages Payable and Fair Value of Mortgages Payable

Most of our mortgage indebtedness was assumed in conjunction with rental property acquisitions. GAAP requires that the mortgages payable assumed on acquisition of properties be recorded at fair value. The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks. Market rates for debt are based on the yield of Canadian government bonds with similar maturity dates plus a credit spread based on Management's experience in obtaining financing and the current market conditions.

Impairment of Assets

We are required to write down to fair value any long-life assets that are determined to have been permanently impaired. Our long-life assets consist of rental properties. Our policy is to assess any potential impairment by making a comparison of the current and projected operating cash flow of a rental property over its remaining useful life, on an un-discounted basis, to the carrying amount of the rental property. If such carrying amount was in excess of the projected operating cash flow of the rental property, impairment in value would be recognized to adjust the carrying amount to its estimated fair market value. Current operating cash flows are based on leases in place and projected operating cash flows are based on Management's estimates of future rental rates. Prior to acquiring a rental property, we commission an appraisal and conduct due-diligence to satisfy itself that the acquisition price is representative of fair market value.

Amortization

A significant portion of the purchase price of rental properties is allocated to buildings. The amortization recorded on buildings is based on the straight-line basis over their expected useful life. The allocation of purchase price to buildings and the estimated useful life are based on Management's estimates and, if these estimates prove incorrect, the amortization will not be appropriately recorded.

Mark-to-Market Rent Adjustment, Cité Multimédia

We completed the acquisition of Cité Multimédia on April 18, 2007, with an effective date of April 1, 2007. At the time of acquisition, based on data compiled by an independent real estate appraiser, Management estimated that the average in-place rental rates for the tenants at Cité Multimédia exceeded current market rental rates by approximately 9%. Accordingly, our financial statements for the nine-month period ended September 30, 2007, recognize a \$2,125 net mark-to-market rent adjustment in respect of Cité Multimédia for the period from April 1, 2007, to September 30, 2007, and our future financial statements will recognize appropriate net mark-to-market rent adjustments in respect of Cité Multimédia. Our net income will be affected by this mark-to-market rent adjustment. Our DI and AFFO will not be affected, as we add non-cash items back in calculating DI and AFFO. Our FFO will be affected by this mark-to-market rent adjustment, as we do not add mark-to-market rent adjustments back in calculating FFO.

PART VII

Related Party Transactions

At the time of the our IPO, a subsidiary of the Developer leased 29,102 square feet of office space from us pursuant to a lease expiring on September 30, 2010. Effective July 1, 2005, we entered into a direct lease of this space with Loblaws Properties Limited for a term ending October 31, 2010, on the condition that the original indemnity of the Developer protecting us from any revenue shortfall (on a cash basis) from the original lease remain in full force and effect.

PART VIII

Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Real estate investments are capital intensive, and success from real estate investments depends upon maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties.

Our portfolio is focused on a particular asset class in four metropolitan real estate markets in Canada. This focus enables management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available.

Financing and Interest Rate Risk

We are subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence our success. In order to minimize risk associated with debt financing, we strive to re-finance maturing loans with long-term fixed-rate debt and to stagger the maturities over time.

Interest rates on our mortgage debt are between 4.94% and 8.10% with a weighted average interest rate of 5.59%. The weighted average term of our mortgage debt is seven years. As at September 30, 2007, the borrowings under the Facility were \$28,644. Following September 30, 2007, we placed \$19,950 in first-mortgage financing on two of our Toronto properties—555 College Street and 99 Spadina Avenue—for terms of 10 years at a weighted average interest rate of 5.90% per year. The proceeds were used to reduce our borrowings under the Facility.

Credit Risk

We are subject to credit risk. Credit risk arises from the possibility that tenants may not be able to fulfill their lease obligations. We strive to mitigate this risk by maintaining a diversified tenant-mix and limiting exposure to any single tenant.

The following sets out our tenant-mix on the basis of percentage of rental revenue for the nine-month period ended September 30, 2007.

Category	% of Rental Revenue Nine-Month Period 2007
Business service and professional	33
Telecommunications and information technology	22
Retail (head office and storefront)	15
Media and entertainment	13
Financial services	8
Government	2
Other	7

The following sets out the percentage of rental revenue from our top-10 tenants by rental revenue for the nine-month period ended September 30, 2007.

Tenant	% of Rental Revenue Nine-Month Period 2007
CGI	5.2
Desjardins	4.8
Cossette Communications	2.2
MTS Allstream	1.8
Publicis Toronto	1.8
St. Joseph Media	1.7
Algorithmics	1.5
Indigo Books & Music	1.5
Motorola	1.4
SAP Labs	1.4

Lease Roll-Over Risk

We are subject to lease roll-over risk. Lease roll-over risk arises from the possibility that we may experience difficulty renewing or replacing tenants occupying space covered by leases that mature. We strive to stagger its lease maturity schedule so that it is not faced with a disproportionately large level of lease maturity in a given year.

97.9% of the GLA in our portfolio was leased as at September 30, 2007 (not including Properties Under Development). The following sets out the total GLA of the leases that mature during the period from January 1, 2007, to December 31, 2011, assuming tenants do not exercise renewal options, and the percentage of total GLA represented by the maturing leases.

Year Ended	Square Feet	% of Total GLA
December 31, 2007	570,533	12.7%
December 31, 2008	470,672	10.5%
December 31, 2009	582,276	13.0%
December 31, 2010	924,771	20.6%
December 31, 2011	669,793	14.9%

Leases representing 409,994 square feet of the GLA that matures in 2007 were renewed or replaced by September 30, 2007. The weighted average term to maturity of our leases is four years.

Environmental Risk

As an owner of real property, we are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against us. We are not aware of any material non-compliance with environmental laws at any of the properties in its portfolio. We are also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of the properties in its portfolio or any pending or threatened claims relating to environmental conditions at the properties in its portfolio.

Development Risk

As an owner of Properties Under Development, we are subject to development risks, such as construction delays, cost over-runs and the failure of tenants to take occupancy and pay rent in accordance with lease arrangements. In connection with all Properties Under Development, we incur development costs prior to (and in anticipation of) achieving a stabilized level of rental revenue. In the case of the development of ancillary land, these risks are managed by not commencing construction until a satisfactory level of pre-leasing is achieved. Overall, these risks are managed by ensuring that Properties Under Development do not represent a large component of our GBV. As at September 30, 2007, the cost of Properties Under Development was equivalent to 1% of our GBV.

Taxation Risk

On October 31, 2006, the Minister of Finance (Canada) announced proposed changes to the taxation of income trusts. On December 21, 2006, the Ministry introduced the related draft legislation, under which qualifying REITs are excluded from the proposed changes, provided they meet a series of conditions relating to the nature of their income and investments. The Notice of Ways and Means Motion that accompanied the Federal Budget announced on March 19, 2007, proposed modifications to the draft legislation. The draft legislation, as modified, was passed into law as part of Bill C-52 on June 22, 2007. Based on the legislation, as passed, we have completed the necessary restructuring of our operations and assets to become a qualifying REIT under Bill C-52 in 2008 and beyond; however, there can be no assurance in this regard, due to the uncertainty surrounding the interpretation of the relevant provisions of the legislation and the possibility of upcoming changes to the legislation. The Minister of Finance introduced guidelines for permitted normal growth (measured by the issuance of new equity) for non-exempt income trusts that, if exceeded, will cause an income trust to lose its four-year tax holiday. We have also taken measures to ensure that we do not exceed the normal-growth guidelines in 2007. On June 18, 2007, we announced that we had suspended the issuance of units under our distribution re-investment plan in order to remain within the normal-growth guidelines. We expect to reinstate our distribution re-investment plan in early 2008.

PART IX

Subsequent Events

On October 26 and November 1, 2007, we placed \$19,950 in first-mortgage financing on two of our Toronto properties—555 College Street and 99 Spadina Avenue—for terms of 10 years at a weighted average interest rate of 5.90% per year. The proceeds were used to reduce our borrowings under the Facility.

On November 5, 2007, we announced the following:

- (i) agreements to acquire 36-40 Wellington Street East, and Dominion Square, Class I office properties in downtown Toronto, for a purchase price of \$20,850; and
- (ii) agreements to acquire two parcels of land adjacent and ancillary to 425 Viger Avenue West in Montreal for a purchase price of \$754.

PART X

Property Table

September 30, 2007 Properties	Office GLA	Retail GLA	Total GLA	% Total GLA	Office Vacant	Retail Vacant	Total Leased	Leased %
<i>The Castle</i>	109,046	34,323	143,369		-	-	143,369	100.0%
<i>555 College</i>	41,041	19,145	60,186		2,764	-	57,422	95.4%
<i>905 King W</i>	103,054	9,832	112,886		-	-	112,886	100.0%
King West	253,141	63,300	316,441	7.06%	2,764	-	313,677	99.1%
<i>468 King W</i>	65,039	-	65,039		-	-	65,039	100.0%
<i>425-439 King W</i>	74,053	25,134	99,187		-	-	99,187	100.0%
<i>441-443 King West</i>	6,820	3,065	9,885		-	-	9,885	100.0%
<i>445-455 King W</i>	27,565	23,048	50,613		-	-	50,613	100.0%
<i>469 King W</i>	62,594	11,250	73,844		-	-	73,844	100.0%
<i>King-Brant Parking</i>	-	-	-		-	-	-	
<i>500-522 King W</i>	94,945	27,705	122,650		-	-	122,650	100.0%
<i>602-606 King W</i>	37,299	23,113	60,412		-	-	60,412	100.0%
<i>420 Wellington W</i>	33,813	3,137	36,950		-	-	36,950	100.0%
<i>425 Adelaide W</i>	74,008	4,104	78,112		11,918	-	66,194	84.7%
<i>579 Richmond W</i>	29,311	-	29,311		-	-	29,311	100.0%
<i>141 Bathurst</i>	10,521	-	10,521		-	-	10,521	100.0%
<i>662 King West</i>	29,691	2,126	31,817		-	-	31,817	100.0%
King West Central	545,659	122,682	668,341	14.91%	11,918	-	656,423	98.2%
<i>116 Simcoe</i>	13,819	-	13,819		-	-	13,819	100.0%
<i>200 Adelaide W</i>	28,024	-	28,024		-	-	28,024	100.0%
<i>208-210 Adelaide W</i>	12,330	-	12,330		-	-	12,330	100.0%
<i>257 Adelaide W</i>	45,893	-	45,893		6,761	-	39,132	85.3%
<i>312 Adelaide W</i>	63,904	7,891	71,795		-	-	71,795	100.0%
<i>331-333 Adelaide W</i>	20,951	3,209	24,160		-	-	24,160	100.0%
<i>358-360 Adelaide W</i>	54,249	-	54,249		-	-	54,249	100.0%
<i>134 Peter</i>	29,218	19,804	49,022		-	3,666	45,356	92.5%
<i>364 Richmond W</i>	21,300	17,300	38,600		-	-	38,600	100.0%
<i>82 Peter</i>	38,623	8,287	46,910		-	-	46,910	100.0%
<i>388 King W</i>	32,529	11,765	44,294		-	-	44,294	100.0%
<i>99 Spadina</i>	39,267	12,613	51,880		-	-	51,880	100.0%
<i>185 Spadina</i>	55,814	-	55,814		-	-	55,814	100.0%
<i>217-225 Richmond W</i>	34,877	21,684	56,561		-	-	56,561	100.0%
Entertainment District	490,798	102,553	593,351	13.23%	6,761	3,666	582,924	98.2%
<i>67 Richmond W</i>	44,870	5,794	50,664		2,339	-	48,325	95.4%
<i>193 Yonge</i>	32,966	16,318	49,284		-	-	49,284	100.0%
Downtown	77,836	22,112	99,948	2.23%	2,339	-	97,609	97.7%
<i>35-39 Front E</i>	30,811	16,606	47,417		-	-	47,417	100.0%
<i>41-45 Front E</i>	19,799	13,735	33,534		-	-	33,534	100.0%
<i>50 Wellington E</i>	21,144	11,049	32,193		-	-	32,193	100.0%
<i>45-55 Colborne</i>	28,369	15,039	43,408		-	-	43,408	100.0%
<i>106 Front E</i>	10,109	24,388	34,497		-	-	34,497	100.0%
St. Lawrence Market	110,232	80,817	191,049	4.26%	-	-	191,049	100.0%
<i>Queen Richmond Centre</i>	175,081	48,818	223,899		-	-	223,899	100.0%
<i>QRC South</i>	44,600	-	44,600		16,700	-	27,900	62.6%
<i>230 Richmond E</i>	62,514	-	62,514		-	-	62,514	100.0%
<i>145 Berkeley</i>	7,938	2,687	10,625		2,050	-	8,575	80.7%
<i>489 Queen E</i>	32,592	-	32,592		-	-	32,592	100.0%
Queen Richmond	322,725	51,505	374,230	8.35%	18,750	-	355,480	95.0%
Total Toronto	1,800,391	442,969	2,243,360	50.03%	42,532	3,666	2,197,162	97.9%

September 30, 2007	Office	Retail	Total	% Total	Office	Retail	Total	Leased %
Properties	GLA	GLA	GLA	GLA	Vacant	Vacant	Leased	
<i>425 Viger W</i>	205,314	820	206,134		-	-	206,134	100.0%
<i>Cite Multimedia</i>	948,803	8,393	957,196		5,965	-	951,231	99.4%
<i>451-481 Saint Catherine</i>	20,805	9,634	30,439		-	-	30,439	100.0%
<i>3575 Saint-Laurent</i>	164,797	17,464	182,261		3,109	-	179,152	98.3%
<i>4446 Saint-Laurent</i>	72,613	10,000	82,613		-	-	82,613	100.0%
<i>6300 Avenue du Parc</i>	217,022	950	217,972		6,256	-	211,716	97.1%
<i>400 Atlantic</i>	86,034	-	86,034		7,160	-	78,874	91.7%
Total Montreal	1,715,388	47,261	1,762,649	39.31%	22,490	-	1,740,159	98.7%
<i>115 Bannatyne</i>	39,310	-	39,310		-	-	39,310	100.0%
<i>50-70 Arthur</i>	110,918	10,500	121,418		6,070	-	115,348	95.0%
<i>250 McDermot</i>	41,446	10,200	51,646		5,715	-	45,931	88.9%
<i>138 Portage East</i>	43,960	-	43,960		7,886	-	36,074	82.1%
<i>309 Hargrave</i>	21,460	1,400	22,860		1,484	-	21,376	93.5%
<i>165 Garry</i>	4,400	10,362	14,762		-	-	14,762	100.0%
Total Winnipeg	261,494	32,462	293,956	6.56%	21,155	-	272,801	92.8%
<i>390 Charest</i>	66,771	6,348	73,119		700	-	72,419	99.0%
<i>410 Charest</i>	-	24,937	24,937		-	1,300	23,637	94.8%
<i>430 Charest</i>	44,051	13,285	57,336		500	-	56,836	99.1%
<i>622 Saint Joseph</i>	3,620	3,300	6,920		-	-	6,920	100.0%
<i>633 Saint Joseph</i>	15,558	6,000	21,558		-	-	21,558	100.0%
Total Quebec City	130,000	53,870	183,870	4.10%	1,200	1,300	181,370	98.6%
Total Rental Portfolio	3,907,273	576,562	4,483,835	100.00%	87,377	4,966	4,391,492	97.9%
<i>47 Fraser, Toronto</i>	11,626	-	11,626					
<i>47A Fraser, Toronto</i>	18,111	-	18,111					
<i>1500 Notre Dame, Winnipeg</i>	111,400	-	111,400					
<i>Adjacent Land, Montreal</i>	-	-	-					
Total PUD	141,137	-	141,137					